

# FINANCIAL SECTION





# OFFICE OF AUDITOR OF STATE STATE OF IOWA

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## Independent Auditor's Report

To the Governor and Members of the General Assembly:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Iowa as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Tobacco Settlement Authority, a major fund in the business-type activities. We also did not audit the financial statements of certain discretely presented component units, which statements reflect 96% of assets and 89% of revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion insofar as it relates to the amounts included for the Tobacco Settlement Authority and these discretely presented component units is based on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Iowa Public Television Foundation and the Iowa Finance Authority, component units of the State of Iowa, were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Iowa as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

For the year ended June 30, 2003, appropriations of \$29,294,004 were made from the Rebuild Iowa Infrastructure Fund for items which are inconsistent with the fund's legislatively established purpose that it be used for public vertical infrastructure-related expenditures. These items included, but were not limited to, natural resources and conservation programs, support of various technology programs and routine maintenance of state buildings. Expenditures for these items during the year ended June 30, 2003 totaled \$29,228,867 of which \$594,636 was funded from previous years' appropriations from the Rebuild Iowa Infrastructure Fund. These items have been reported as expenditures in the General Fund in the basic financial statements.

Management's Discussion and Analysis, Budgetary Comparison Information and Schedules of Funding Progress on pages 4 through 12 and 68 through 76 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Iowa's basic financial statements. The combining and individual nonmajor fund financial statements, supplementary information and statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and supplementary information have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with Government Auditing Standards, our report on the State of Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants will be issued under separate cover in the Single Audit Report.

DAVID A. VAUDT, CPA  
Auditor of State

WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

December 12, 2003

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The *Management's Discussion and Analysis* of the State of Iowa's *Comprehensive Annual Financial Report* (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year that ended on June 30, 2003. Readers are encouraged to consider this information in conjunction with the letter of transmittal located at the front of the CAFR, and the State's financial statements, which follow this part of the CAFR.

### FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

#### Government-wide Highlights

- The assets of the State of Iowa exceeded its liabilities at the close of fiscal year 2003 by \$9,924.1 million (net assets). Of this amount \$526.6 million (unrestricted net assets) is available to be used to meet the State's ongoing obligations to citizens and creditors.
- The State's total net assets increased by \$262.5 million in the fiscal year ended June 30, 2003. Net assets of governmental activities increased by \$112.1 million or 1.6 percent, while net assets of business-type activities increased by \$150.4 million or 5.5 percent.
- In the State's governmental activities, revenues decreased 0.4 percent to \$9,959.0 million while expenses increased 0.1 percent to \$9,959.4 million.
- In the State's business-type activities, revenues increased 0.8 percent to \$3,460.6 million while expenses increased 1.1 percent to \$3,197.7 million.

#### Fund Highlights

- The State's governmental funds reported a combined ending fund balance of \$2,139.8 million, a \$155.4 million decrease from the prior year. Of this amount, \$256.7 million represents unreserved fund balance and the remaining \$1,882.7 million is reserved for specific purposes.
- The General Fund total fund balance decreased \$67.6 million to \$1,658.9 million and the unreserved fund balance decreased \$136.0 million to \$180.8 million at June 30, 2003. The Tobacco Tax-Exempt Bond Proceeds Fund, a major special revenue fund, total fund balance decreased \$ 142.5 million to \$326.0 million at June 30, 2003.
- The proprietary funds reported net assets at year-end of \$2,905.2 million, an increase of \$169.7 million.

#### Long-term Debt

- The State's total long-term debt increased by \$2.4 million to \$1,703.0 million during the current fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of the CAFR consists of four parts—***management's discussion and analysis*** (this section), the ***basic financial statements, required supplementary information***, and an optional section that presents ***other supplementary information***.

#### Basic Financial Statements

The basic financial statements include the government-wide financial statements, the fund financial statements, and the notes to the financial statements.

## ***Government-wide Financial Statements***

The government-wide financial statements are intended to provide a broad view of the State's financial activity. These statements are prepared using the accrual basis of accounting and the economic resources measurement focus, in a manner similar to private-sector business.

- The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the State's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- The Statement of Activities presents information about the change in the State's net assets. This statement is formatted to report direct expenses, program revenues and the net revenue or expense for each of the State's governmental functions and business-type activities. This format identifies the extent to which each function is self-financed or is supported by the general revenues of the State.

The government-wide financial statements of the State are divided into three categories:

- *Governmental activities*—Most services generally associated with State government, such as administration & regulation, education, health & human rights, human services, justice & public defense, economic development, transportation, and agriculture & natural resources, are included in this category.
- *Business-type activities*—State operations such as the Universities, Unemployment Insurance, and the Tobacco Settlement Authority, that charge fees to external customers and function similarly to private business are included here.
- *Component units*—These are operations that are legally separate from the State, but for which the State is financially accountable. The State's discretely presented component units are:
  - Iowa Finance Authority (Business-type)
  - Iowa Higher Education Loan Authority (Business-type)
  - Iowa Agricultural Development Authority (Business-type)
  - Iowa State Fair Authority (Business-type)

Additional information about the State's component units is presented in NOTE 1-B of the Notes to the Financial Statements.

## ***Fund Financial Statements***

The fund financial statements provide more detailed information about the State's most significant funds. The State has three kinds of funds:

- *Governmental funds*—Most of the basic services provided by the State are accounted for in governmental funds. Governmental funds use the modified accrual basis of accounting and the flow of current financial resources measurement focus. Modified accrual accounting is used to show the flow of financial assets of the funds and the balances available for spending at year-end. These statements provide a detailed *short-term* view that assists in determining whether there are adequate financial resources available to meet the current needs of the State. Because this information does not encompass the long-term focus of the government-wide statements, reconciliation schedules accompany the governmental funds statements. The General Fund and the Tobacco Tax-Exempt Bond Proceeds fund are the State's major governmental funds. Nonmajor governmental funds are reported by fund type in the Combining Financial Statements – Non-major funds.

- *Proprietary funds*—Services for which the State charges customers a fee are generally reported in proprietary funds. Proprietary funds use the accrual basis of accounting and, like the government-wide statements, provide both long- and short-term financial information.
  - The State’s enterprise funds (one type of proprietary fund) are used to report activities, such as universities, that are presented as business-type activities in the government-wide statements.
  - The State’s internal service funds (the other kind of proprietary fund) are used to account for activities that provide supplies and services for other State programs and activities—such as the Workers’ Compensation Fund.
- *Fiduciary Funds* – These funds are used to show assets held by the State as trustee or agent for *others* outside the State, such as the Iowa Public Employees’ Retirement System and the Iowa Educational Savings Plan Trust. Similar to proprietary funds, these funds use the accrual basis of accounting. Because the State can not use these assets to finance its operations, fiduciary funds are not included in the government-wide financial statements discussed above.

**Table 1**

<b>Major Features of the State’s Government-wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<b>Scope</b>	Entire State government (except fiduciary funds) and the State’s component units	The activities of the State that are not proprietary or fiduciary, such as Human Services and Transportation	Activities the State operates similar to private businesses: the universities and the Iowa Communications Network	Instances in which the State is the trustee or agent for someone else’s resources, such as the retirement plan for public employees
<b>Required financial statements</b>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses, and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the State’s funds do not currently contain capital assets, although they can
<b>Type of inflow/outflow information</b>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

## Notes to the Financial Statements

The notes provide additional information that is essential to fully understanding the government-wide and fund financial statements. The notes also explain some of the information contained in the financial statements and present more detail than is practical in the financial statements.

### Required Supplementary Information

In addition to this Management's Discussion and Analysis, Required Supplementary Information (RSI) includes the Budgetary Comparison Schedule. This schedule presents both the original and final appropriated budget of major funds. The Budgetary Comparison Schedule is accompanied by a budget to GAAP Reconciliation and by Notes to RSI. Schedules of funding progress for the Iowa Judicial Retirement System and the Peace Officers' Retirement, Accident and Disability System are also presented.

### Other Supplementary Information

The Other Supplementary Information includes combining financial statements for non-major governmental funds, non-major enterprise funds, internal service funds and fiduciary funds, which are added together and presented in single columns in the basic financial statements.

## FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

### Net Assets

The State's combined net assets (government and business-type activities) totaled \$9,924.1 million at the end of 2003, compared to \$9,651.3 million at the end of the previous year, as indicated in Table 2.

<b>Table 2</b> <b>Net Assets</b> <b>(In Millions)</b>							
	Governmental Activities		Business-type Activities		Total		Total Percentage Change 2002-2003
	2003	2002	2003	2002	2003	2002	
Current and other assets	\$ 3,061.8	\$ 3,180.1	\$ 2,827.5	\$ 2,803.0	\$ 5,889.3	\$ 5,983.1	-1.6%
Capital assets	5,458.8	5,225.1	2,214.0	1,993.9	7,672.8	7,219.0	6.3%
Total assets	8,520.6	8,405.2	5,041.5	4,796.9	13,562.1	13,202.1	2.7%
Long-term liabilities	521.6	580.6	1,554.2	1,540.6	2,075.8	2,121.2	-2.1%
Other liabilities	971.5	909.2	590.7	520.4	1,562.2	1,429.6	9.3%
Total liabilities	1,493.1	1,489.8	2,144.9	2,061.0	3,638.0	3,550.8	2.5%
Net assets							
Invested in capital assets,							
Net of related debt	5,371.0	5,127.8	1,528.9	1,324.4	6,899.9	6,452.2	6.9%
Restricted	1,373.9	1,255.5	1,123.7	1,212.4	2,497.6	2,467.9	1.2%
Unrestricted	282.6	532.1	244.0	199.1	526.6	731.2	-28.0%
Total net assets	\$ 7,027.5	\$ 6,915.4	\$ 2,896.6	\$ 2,735.9	\$ 9,924.1	\$ 9,651.3	2.8%

Net assets of the State's governmental activities increased 1.6 percent to \$7,027.5 million. The largest component (76.4%) of the State's net assets is invested in capital assets (e.g. land, buildings, equipment, infrastructure, and others), net of related outstanding debt that was used to acquire or construct the assets. Restricted net assets is the next largest component (19.6%). These represent resources that are subject to external restrictions, constitutional provisions, or enabling legislation on how they can be used. Unrestricted net assets is the remaining portion (4.0%) and may be used at the State's discretion, but often have limitations on use based on State statutes. The \$282.6 million unrestricted net asset balance is a decrease of \$249.5 million (46.9%) from the prior year.

The net assets of business-type activities increased by 5.5 percent to \$2,896.6 million. The State generally can only use these net assets to finance the continuing operations of the universities, unemployment insurance, the Tobacco Settlement Authority, and other business-type activities.

## Changes in Net Assets

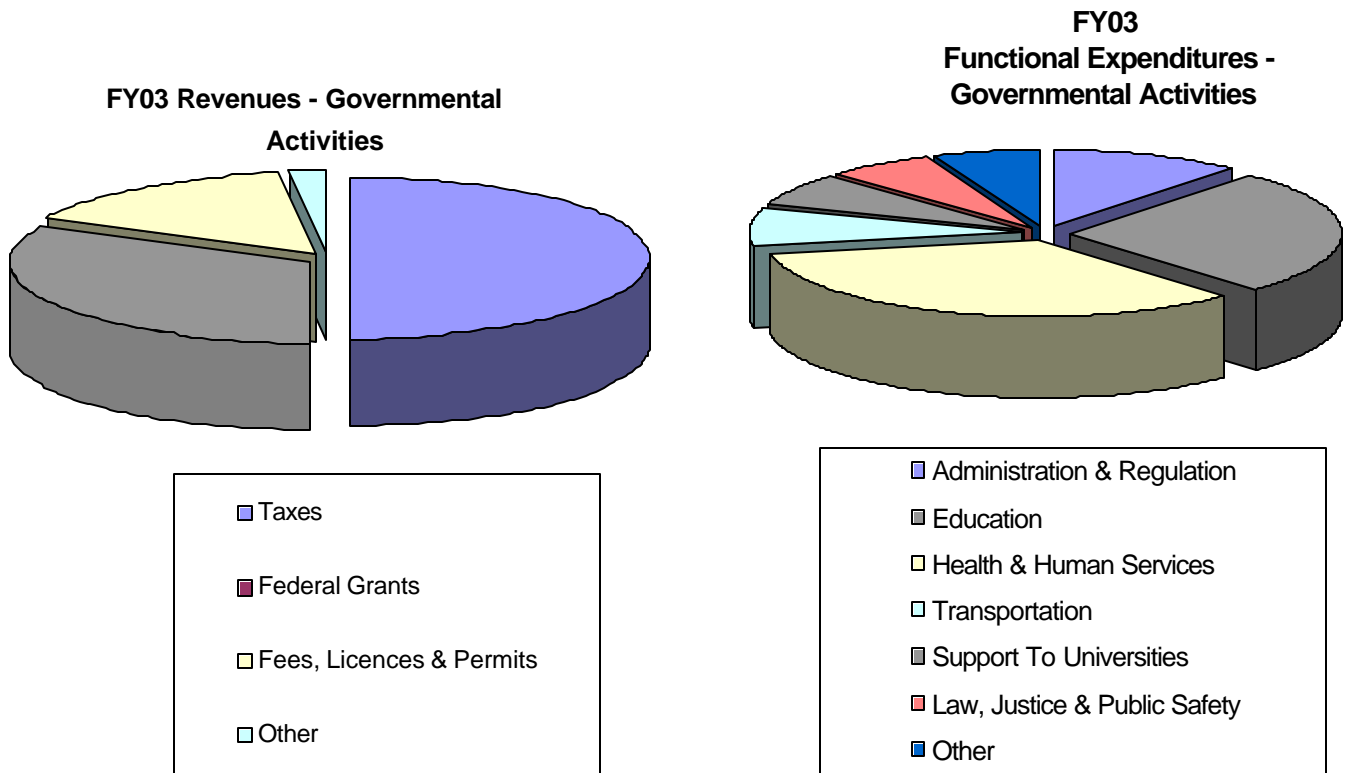
The State's total net assets increased by \$262.5 million during the year, as indicated in Table 3.

**Table 3**  
**Changes in Net Assets**  
(In Millions)

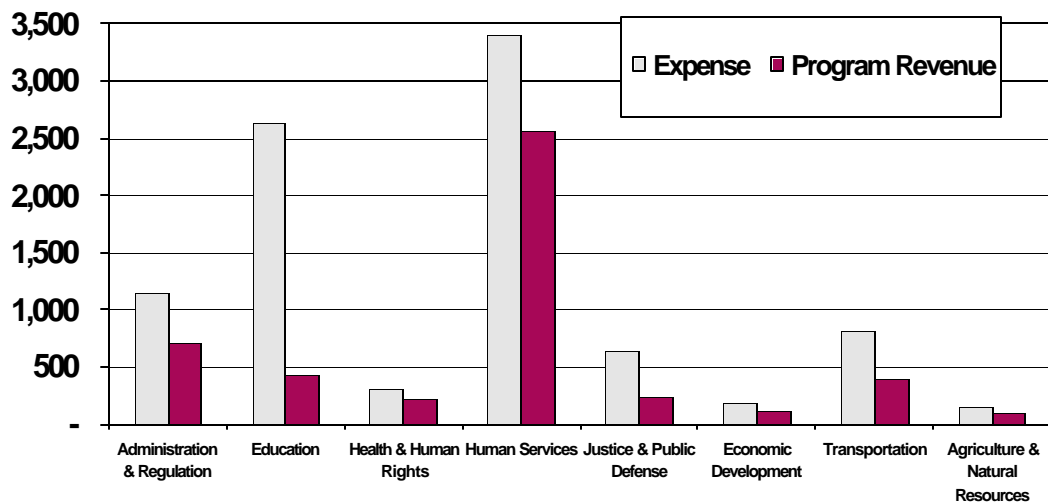
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>		<b>Total Percentage Change</b>
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2002 - 2003</b>
Program Revenues:							
Charges for Service	\$ 1,574.5	\$ 1,768.0	\$ 2,197.0	\$ 1,992.5	\$ 3,771.5	\$ 3,760.5	0.3%
Operating Grants and Contributions	3,196.0	3,046.0	349.1	472.0	3,545.1	3,518.0	0.8%
Capital Grants and Contributions	6.5	8.9	57.8	30.7	64.3	39.6	62.4%
General Revenues:							
Personal Income Tax	1,922.3	1,889.9	-	-	1,922.3	1,889.9	1.7%
Corporate Income Tax	148.2	111.7	-	-	148.2	111.7	32.7%
Sales & Use Tax	1,635.6	1,686.4	-	-	1,635.6	1,686.4	-3.0%
Other Taxes	563.8	598.2	10.2	8.8	574.0	607.0	-5.4%
Restricted for Transportation Purposes:							
Motor Fuel Tax	464.1	458.0	-	-	464.1	458.0	1.3%
Road Use Tax	246.2	255.7	-	-	246.2	255.7	-3.7%
Unrestricted Investment Earnings	62.8	97.7	98.3	66.3	161.1	164.0	-1.8%
State Aid to Universities	-	-	681.3	675.1	681.3	675.1	0.9%
Other	139.0	75.9	66.9	188.1	205.9	264.0	-22.0%
<b>Total Revenues</b>	<b>9,959.0</b>	<b>9,996.4</b>	<b>3,460.6</b>	<b>3,433.5</b>	<b>13,419.6</b>	<b>13,429.9</b>	<b>-0.1%</b>
Expenses:							
Administration & Regulation	1,143.5	1,191.7	-	-	1,143.5	1,191.7	-4.0%
Education	2,628.7	2,594.3	-	-	2,628.7	2,594.3	1.3%
State Aid to Universities	681.3	675.1	-	-	681.3	675.1	0.9%
Health & Human Rights	306.2	283.1	-	-	306.2	283.1	8.2%
Human Services	3,396.2	3,450.0	-	-	3,396.2	3,450.0	-1.6%
Justice & Public Defense	631.2	623.4	-	-	631.2	623.4	1.3%
Economic Development	184.7	180.9	-	-	184.7	180.9	2.1%
Transportation	819.5	758.9	-	-	819.5	758.9	8.0%
Agriculture & Natural Resources	147.9	170.4	-	-	147.9	170.4	-13.2%
Interest Expense	20.2	19.4	-	-	20.2	19.4	4.1%
Universities	-	-	2,424.3	2,459.1	2,424.3	2,459.1	-1.4%
Unemployment Insurance	-	-	445.1	392.4	445.1	392.4	13.4%
Tobacco Settlement Authority	-	-	36.9	25.0	36.9	25.0	47.6%
Other Business-type	-	-	291.4	286.1	291.4	286.1	1.9%
<b>Total Expenses</b>	<b>9,959.4</b>	<b>9,947.2</b>	<b>3,197.7</b>	<b>3,162.6</b>	<b>13,157.1</b>	<b>13,109.8</b>	<b>0.4%</b>
Increase in Net Assets Before Transfers	(0.4)	49.2	262.9	270.9	262.5	320.1	-18.0%
Transfers	112.5	666.8	(112.5)	(666.8)	-	-	0.0%
<b>Increase (Decrease) in Net Assets</b>	<b>112.1</b>	<b>716.0</b>	<b>150.4</b>	<b>(395.9)</b>	<b>262.5</b>	<b>320.1</b>	<b>-18.0%</b>
<b>Net Assets July 1 (Restated)</b>	<b>6,915.4</b>	<b>6,199.4</b>	<b>2,746.2</b>	<b>3,131.8</b>	<b>9,661.6</b>	<b>9,331.2</b>	<b>3.5%</b>
<b>Net Assets June 30</b>	<b>\$ 7,027.5</b>	<b>\$ 6,915.4</b>	<b>\$ 2,896.6</b>	<b>\$ 2,735.9</b>	<b>\$ 9,924.1</b>	<b>\$ 9,651.3</b>	<b>2.8%</b>



## Governmental Activities



## Expenses and Program Revenues - Government Activities (In Millions)



The cost of all governmental activities this year was \$9,959.4 million.

- However, the amount that taxpayers paid for these activities through State taxes was \$4,980.2 million. Some of the cost was paid by:
  - Those who directly benefited from the programs (\$1,574.5 million), or
  - Other governments and organizations that subsidized certain programs with operating and capital grants and contributions (\$3,202.5 million).

## **Business-type Activities**

- Universities had \$2,424.3 million in expenses and \$1,841.4 million in program revenues for net expenses for \$582.9 million.
- Unemployment Insurance had \$445.0 million in expense and \$337.6 million in program revenue for net expenses of \$107.4 million.
- Tobacco Settlement Authority had \$36.9 million in expenses and \$49.8 million in program revenues for net revenue of \$12.9 million.

In total, business-type activities had net expense of \$593.8 million with \$744.2 million in net general revenues and transfers for a negative change in net assets of \$150.4 million to end with net assets of \$2,896.6 million.

Capital Grants and Contributions increased \$27.1 million in fiscal year 2003 due primarily to the University funds receiving contributions of \$16.4 million from a major corporation and approximately \$6.0 million from their foundations.

Unemployment Insurance benefit payments in fiscal year 2003 increased \$52.7 million due to a 1.09 % increase in the State's unemployment rate, while the Tobacco Settlement Authority interest expense increased approximately \$12 million, as fiscal year 2003 is the first full year of interest expense.

## **FINANCIAL ANALYSIS OF THE STATE'S FUNDS**

The governmental funds reported total fund balances of \$2,139.4 million, with \$256.7 million of unreserved fund balance. Net revenues totaled \$9,961.7 million with expenditures of \$10,231.6 million.

### **General Fund**

The General Fund is the chief operating fund of the State. At the end of the year, the total fund balance was \$1,658.9 million and the unreserved fund balance was \$180.8 million. The unreserved fund balance included \$210.6 million of "rainy day" funds. The net change in fund balance was a decrease of \$67.6 million. Expenditures exceeded revenues by \$264.7 million, while other financing sources exceeded uses by \$197.1 million.

### **Tobacco Tax-Exempt Bond Proceeds Fund**

Fund balance at June 30, 2003, totaled \$326.0 million, which is reserved for specific purposes. Revenues were \$22.5 million, expenditures were \$134.7 million, and net other financing uses of \$30.3 million.

### **General Fund Budgetary Highlights**

Over the course of the year, the State revised the budget several times. These budget amendments fall into three categories:

- Supplemental appropriations - \$62,337,310
- Spending reductions - \$33,457,196 in appropriation reductions
- Adjustments to standing appropriations - \$4,720,667

The originally enacted General Fund budget of \$4,570.1 million was predicated on -2.0% decline in General Fund revenues, as projected by the State's revenue estimating conference (REC) on February 21, 2002. On May 7, 2002, the REC made adjustment to the estimate that reduced General Fund resources by \$218.7 million.

Citing the reduced REC estimates, Governor Vilsack item vetoed \$1,419.2 million from the legislatively enacted budget, noting that after the REC action, the enacted budget would result in a General Fund deficit of more than \$200 million.

On May 28, 2002, the legislature met in special session. Among their actions, they revised the General Fund budget to \$4,502.2 million and required additional reductions of \$33.5 million through a furlough or other efficiency programs for all state agencies and departments. The legislature also made transfers from other funds to the General Fund totaling \$71.0 million. This included \$25.0 million transferred from the Economic Emergency Fund to the General Fund for costs associated with the state school aid formula. The Governor subsequently item vetoed \$108,000 from the legislature's enacted budget.

On September 6, 2002, the REC increased estimated net General Fund receipts by \$119.4 million for FY2003. Adjusted for \$57.1 million in transfers and other revenue adjustments made by the legislature and already considered as new revenues in the budget process, the increase in the projected net revenue was \$62.3 million.

During the 2003 legislative session, Governor Vilsack recommended supplemental General Fund appropriations for the Department of Corrections, Department of Public Safety, Department of Inspections and Appeals, and Department of Human Services totaling \$61.1 million. The legislature subsequently provided supplemental General Fund appropriations of \$61.2 million for these departments. After supplemental appropriations, it was estimated that the State General Fund balance at the end of the fiscal year would total \$1.7 million.

In April 2003, the Legislature also appropriated \$16.6 million from the Cash Reserve Fund to the Environment First Account in the Rebuild Iowa Infrastructure Fund to ensure that agricultural and environmental appropriations were maintained at their enacted level. This was necessary because the Iowa Supreme Court, in June 2002, had ruled that the State's tax structure, which taxed land-based casinos at a higher rate than riverboat casinos, was unconstitutional. The Supreme Court required that the land-based casinos be taxed at the same rate as the riverboat casinos, which reduced gaming receipts by \$39.9 million in fiscal year 2003. While the ruling was overturned by the U.S. Supreme Court and is on remand with the Iowa Supreme Court, to date, the Iowa Supreme Court has not acted on the case.

Through June 30, 2003, the General Fund cash receipts were slightly higher than the REC estimate, by \$12.8 million. However, accrued General Fund revenues and reversions of unspent General Fund appropriations were lower than projected, and standing General Fund appropriations were higher than projected. The largest impact was accrued revenues, which were \$50.7 million under the REC estimate. Reversions of unspent General Fund appropriation were \$7.3 million under the estimate, and standing appropriations exceeded the estimate by \$3.6 million. As a consequence, the shortfall between actual General Fund appropriations and actual General Fund revenues for the fiscal year is \$45.8 million.

As the likelihood of a General Fund revenue shortfall became clear, Governor Vilsack recommended that the Legislature meet in special session and transfer the amount necessary from the Cash Reserve Fund to cover the General Fund shortfall. On September 23, 2003, Auditor of State Vaudt wrote the Governor and Legislative leaders and indicated that a special session was not necessary to deal with this issue. Governor Vilsack has written to Legislative leaders expressing his belief that addressing this issue should be the first priority when the Legislature convenes in regular session in January 2004.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2003, the State had \$7,672.8 million invested in capital assets, net of accumulated depreciation of \$5,210.0 million. Depreciation charges totaled \$492.9 million in 2003. The details of these assets are presented in Table 4. Additional information about the State's capital assets is presented in NOTE 6 of the financial statements.

**Table 4**  
**Capital Assets, Net of Depreciation**  
**(In Millions)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>		<b>Total Percentage Change 2002 - 2003</b>
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	
Land	\$595.3	\$576.3	\$26.7	\$24.2	\$622.0	\$600.5	3.6%
Building and Improvements	431.0	352.8	1,162.9	1,052.2	1,593.9	1,405.0	13.4%
Equipment	140.1	145.0	321.1	289.3	461.2	434.3	6.2%
Land Improvements	6.9	2.8	24.0	22.9	30.9	25.7	20.2%
Works of Art and Collections	0.9	0.9	227.3	214.3	228.2	215.2	6.0%
Infrastructure	4,203.2	4,008.0	221.8	218.0	4,425.0	4,226.0	4.7%
Construction in progress	81.4	139.3	230.2	173.0	311.6	312.3	-0.2%
<b>Total</b>	<b>\$5,458.8</b>	<b>\$5,225.1</b>	<b>\$2,214.0</b>	<b>\$1,993.9</b>	<b>\$7,672.8</b>	<b>\$7,219.0</b>	<b>6.3%</b>

## Long-term Debt

At year-end the State had \$1,703.0 million in bonds and certificates of participation outstanding, as shown in Table 5. More detailed information about the State's long-term liabilities is presented in NOTE 8 to the financial statements.

**Table 5**  
**State of Iowa's Outstanding Debt**  
**(In Millions)**

	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total Primary Government</b>		<b>Total Percentage Change</b>
	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>	<b>2002 - 2003</b>
Revenue Bonds	\$ 383.4	\$ 404.1	\$ 1,269.5	\$ 1,235.8	\$ 1,652.9	\$ 1,639.9	0.8%
Certificates of Participation	3.2	3.7	46.9	57.0	50.1	60.7	-17.5%
Total	<b>\$ 386.6</b>	<b>\$ 407.8</b>	<b>\$ 1,316.4</b>	<b>\$ 1,292.8</b>	<b>\$ 1,703.0</b>	<b>\$ 1,700.6</b>	<b>0.1%</b>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

While it has been determined that the national economy emerged from the recession in November 2001, its impact on most states, in terms of economic and revenue growth, is still being felt. The State's unemployment rate in September 2003 was 4.6%, compared to 4.2% in September 2002, and 3.2% in September 2001.

With sluggish job growth, Iowa's net General Fund revenue collections have declined in both of the last two fiscal years. This is apparent across the country, as state revenue collections, adjusted for tax law changes, have declined for eight consecutive quarters.

The actual General Fund appropriations for fiscal year 2003 totaled \$4,529.4 million, a reduction of \$85.4 million from the General Fund level of appropriations for the previous fiscal year.

These indicators were taken into account when adopting the General Fund budget for 2004. Amounts available for appropriation in the General Fund budget was \$4,653.2 million. Budget expenditures totaled \$4,560.9 million, an increase of \$31.5 million from the actual 2003 General Fund. The only major new program in the 2004 budget, the Grow Iowa Values Fund, is largely funded in 2004 and 2005 with one-time federal funds. The State has added no major new programs or initiatives to the 2003 budget.

At REC meetings in August and October 2003, the 2004 General Fund net revenue estimate was revised downward by a combined total of \$163.7 million. Immediately after the October REC meeting, Governor Vilsack issued Executive Order Number 31, which initiated a 2.5% across the board reduction in 2004 General Fund appropriations. During the 2003 session, the Legislature had adopted language that exempted certain agencies and departments from across the board budget reductions during 2004 and 2005. As a consequence, the 2.5% across the board reduction decreased General Fund appropriations by a total of \$82.6 million. In December 2003, the REC reduced the 2004 General Fund net revenue estimate by an additional \$14.9 million. Currently, it is projected that the State's budgetary General Fund balance will be \$4.2 million at the close of 2004.

## CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, legislators, customers, investors and creditors with a general overview of the State's finances and to demonstrate the State's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the:

Iowa Department of Administrative Services  
Hoover State Office Building  
Des Moines, IA 50319

**B A S I C  
F I N A N C I A L  
S T A T E M E N T S**



# STATE OF IOWA

## Statement of Net Assets

June 30, 2003  
(Expressed in Thousands)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
ASSETS				
Current Assets:				
Cash & Investments	\$ 1,675,279	\$ 1,710,891	\$ 3,386,170	\$ 342,778
Cash & Investments - Restricted	-	36,424	36,424	2,326
Deposits With Trustees	4,642	28,877	33,519	-
Accounts Receivable (Net)	1,122,328	431,110	1,553,438	726
Interest Receivable	1,666	4,820	6,486	8,401
Loans Receivable (Net)	9,936	6,634	16,570	24,859
Benefit Overpayment Receivable	-	10,081	10,081	-
Internal Balances	2,731	(2,731)	-	-
Inventory	18,840	50,943	69,783	190
Food Stamp Inventory	21,057	-	21,057	-
Prepaid Expenses	9,486	9,742	19,228	98
Other Assets	-	1,010	1,010	1,322
Investment In Prize Annuity	-	9,354	9,354	-
Total Current Assets	2,865,965	2,297,155	5,163,120	380,700
Noncurrent Assets:				
Cash & Investments	-	363,241	363,241	637,694
Cash & Investments - Restricted	-	-	-	16,959
Deposits With Trustees	-	325	325	-
Accounts Receivable (Net)	42,814	21,597	64,411	500
Interest Receivable	-	1,068	1,068	-
Loans Receivable (Net)	136,531	65,300	201,831	324,388
Benefit Overpayment Receivable	-	10,205	10,205	-
Capital Assets - nondepreciable	676,662	451,153	1,127,815	15,711
Capital Assets - depreciable (Net)	4,782,142	1,762,884	6,545,026	27,641
Prepaid Expenses	-	953	953	-
Deferred Charges	1,285	-	1,285	-
Other Assets	15,205	21,849	37,054	-
Investment In Prize Annuity	-	40,420	40,420	-
Prize Deposit	-	5,356	5,356	-
Total Noncurrent Assets	5,654,639	2,744,351	8,398,990	1,022,893
TOTAL ASSETS	8,520,604	5,041,506	13,562,110	1,403,593

The notes are an integral part of the financial statements.

(continued on next page)

# STATE OF IOWA

(continued)

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	COMPONENT UNITS
LIABILITIES				
Current Liabilities:				
Accounts Payable & Accruals	745,786	206,206	951,992	7,043
Interest Payable	4,178	20,976	25,154	16,900
Deferred Revenue	80,528	64,726	145,254	669
Compensated Absences	119,334	67,179	186,513	-
Capital Leases	1,365	6,633	7,998	-
Bonds Payable	19,480	50,257	69,737	72,137
Other Financing				
Arrangements Payable	900	19,110	20,010	-
Annuities Payable	-	9,484	9,484	-
Lottery Prizes Payable	-	5,101	5,101	-
Funds Held In Custody	-	141,018	141,018	-
Lease Obligations From				
Discontinued Operations	-	27	27	-
Total Current Liabilities	971,571	590,717	1,562,288	96,749
Noncurrent Liabilities:				
Accounts Payable & Accruals	131,426	28,247	159,673	-
Interest Payable	-	5,592	5,592	-
Deferred Revenue	234	4,855	5,089	6,171
Compensated Absences	16,700	59,152	75,852	136
Capital Leases	3,696	94,791	98,487	-
Bonds Payable	363,875	1,219,331	1,583,206	750,131
Other Financing				
Arrangements Payable	5,652	44,423	50,075	-
Annuities Payable	-	40,420	40,420	-
Refundable Advance On Student Loans	-	51,986	51,986	-
Other	-	5,383	5,383	9,632
Total Noncurrent Liabilities	521,583	1,554,180	2,075,763	766,070
TOTAL LIABILITIES	1,493,154	2,144,897	3,638,051	862,819
NET ASSETS				
Invested in Capital Assets,				
Net of Related Debt	5,370,928	1,528,930	6,899,858	43,352
Restricted for:				
Transportation	525,097	-	525,097	-
Underground Storage Tank Program	113,753	-	113,753	-
Education	56,611	-	56,611	-
Health & Human Rights	383,051	-	383,051	-
Vision Iowa Program	162,378	-	162,378	-
Universities	-	338,930	338,930	-
Permanent Funds - Nonexpendable	9,042	-	9,042	-
Unemployment Benefits	-	784,735	784,735	-
Other	123,981	-	123,981	454,478
Unrestricted	282,609	244,014	526,623	42,944
TOTAL NET ASSETS	\$ 7,027,450	\$ 2,896,609	\$ 9,924,059	\$ 540,774

# STATE OF IOWA

## Statement of Activities

For the Year Ended June 30, 2003  
(Expressed in Thousands)

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>		
		<u>Charges for Service</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government:</b>				
Governmental Activities:				
Administration & Regulation	\$ 1,143,549	\$ 701,584	\$ 8,412	\$ -
Education	2,628,698	35,511	386,230	196
State Aid to Universities	681,288	-	-	-
Health & Human Rights	306,181	40,081	185,411	2,204
Human Services	3,396,213	558,878	2,008,536	-
Justice & Public Defense	631,182	166,452	69,998	-
Economic Development	184,647	3,153	111,033	-
Transportation	819,532	382	393,797	-
Agriculture & Natural Resources	147,874	68,464	32,572	4,063
Interest Expense	20,232	-	-	-
<b>Total Governmental Activities</b>	<b>9,959,396</b>	<b>1,574,505</b>	<b>3,195,989</b>	<b>6,463</b>
Business-type Activities:				
Universities	2,424,292	1,449,643	349,072	42,676
Unemployment Insurance	445,045	337,634	-	-
Tobacco Settlement Authority	36,877	49,772	-	-
Other	291,407	359,935	-	15,125
<b>Total Business-type Activities</b>	<b>3,197,621</b>	<b>2,196,984</b>	<b>349,072</b>	<b>57,801</b>
<b>Total Primary Government</b>	<b>\$ 13,157,017</b>	<b>\$ 3,771,489</b>	<b>\$ 3,545,061</b>	<b>\$ 64,264</b>
<b>Component Units:</b>				
Iowa Finance Authority	\$ 49,706	\$ 72,131	\$ 49,183	\$ -
Iowa Higher Education Loan Authority	1,222	1,416	-	-
Iowa Agriculture Development Authority	468	446	13	-
Iowa State Fair Authority	13,470	13,150	987	506
<b>Total Component Units</b>	<b>\$ 64,866</b>	<b>\$ 87,143</b>	<b>\$ 50,183</b>	<b>\$ 506</b>
<b>General Revenues</b>				
Taxes:				
Personal Income				
Corporate Income				
Sales and Use				
Other				
Restricted for Transportation Purposes:				
Motor Fuel Tax				
Road Use Tax				
Unrestricted Investment Earnings				
Contribution to Permanent Fund Principal				
Gain (Loss) on Sale of Assets				
State Aid to Universities				
Other				
Transfers				
<b>Total General Revenues and Transfers</b>				
<b>Change in Net Assets</b>				
<b>Net Assets - July 1, Restated</b>				
<b>Net Assets - June 30</b>				

The notes are an integral part of the financial statements.



# STATE OF IOWA

Net (Expenses) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (433,553)	\$ -	\$ (433,553)	\$ -
(2,206,761)	-	(2,206,761)	-
(681,288)	-	(681,288)	-
(78,485)	-	(78,485)	-
(828,799)	-	(828,799)	-
(394,732)	-	(394,732)	-
(70,461)	-	(70,461)	-
(425,353)	-	(425,353)	-
(42,775)	-	(42,775)	-
(20,232)	-	(20,232)	-
<b>(5,182,439)</b>	<b>-</b>	<b>(5,182,439)</b>	<b>-</b>
-	(582,901)	(582,901)	-
-	(107,411)	(107,411)	-
-	12,895	12,895	-
-	83,653	83,653	-
<b>-</b>	<b>(593,764)</b>	<b>(593,764)</b>	<b>-</b>
<b>(5,182,439)</b>	<b>(593,764)</b>	<b>(5,776,203)</b>	<b>-</b>
			71,608
			194
			(9)
			1,173
			<b>72,966</b>
1,922,316	-	1,922,316	-
148,214	-	148,214	-
1,635,551	-	1,635,551	-
563,751	10,258	574,009	-
464,069	-	464,069	-
246,238	-	246,238	-
62,844	98,223	161,067	1,840
27	-	27	-
(1,685)	(11,264)	(12,949)	-
-	681,288	681,288	-
140,672	78,133	218,805	525
112,474	(112,474)	-	-
<b>5,294,471</b>	<b>744,164</b>	<b>6,038,635</b>	<b>2,365</b>
<b>112,032</b>	<b>150,400</b>	<b>262,432</b>	<b>75,331</b>
<b>6,915,418</b>	<b>2,746,209</b>	<b>9,661,627</b>	<b>465,443</b>
<b>\$ 7,027,450</b>	<b>\$ 2,896,609</b>	<b>\$ 9,924,059</b>	<b>\$ 540,774</b>



## **GOVERNMENTAL FUND FINANCIAL STATEMENTS**

### **Major Funds**

**General Fund** – This is the state's operating fund. It accounts for the financial resources and transactions not accounted for in other funds.

**Tobacco Tax-Exempt Bond Proceeds Fund** – This fund accounts for the proceeds received from the Tobacco Settlement Authority to provide appropriations to various programs.

**Nonmajor Governmental Funds** are presented, by fund type, beginning on page 78.

**STATE OF IOWA**  
**Balance Sheet**  
**Governmental Funds**

June 30, 2003  
(Expressed in Thousands)

	GENERAL FUND	TOBACCO TAX-EXEMPT BOND PROCEEDS FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>ASSETS</b>				
Current Assets:				
Cash & Investments	\$ 1,127,169	\$ 372,366	\$ 153,035	\$ 1,652,570
Deposits with Trustees	4,205	-	437	4,642
Accounts Receivable (Net)	1,115,703	2,245	3,784	1,121,732
Interest Receivable	-	1,665	-	1,665
Loans Receivable (Net)	9,936	-	-	9,936
Due From Other Funds	18,937	142	3,326	22,405
Inventory	10,581	-	217	10,798
Food Stamp Inventory	21,057	-	-	21,057
Prepaid Expenditures	8,432	-	55	8,487
Total Current Assets	<u>2,316,020</u>	<u>376,418</u>	<u>160,854</u>	<u>2,853,292</u>
Noncurrent Assets:				
Accounts Receivable (Net)	40,184	-	2,630	42,814
Loans Receivable (Net)	136,240	-	-	136,240
Total Noncurrent Assets	<u>176,424</u>	<u>-</u>	<u>2,630</u>	<u>179,054</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 2,492,444</u></b>	<b><u>\$ 376,418</u></b>	<b><u>\$ 163,484</u></b>	<b><u>\$ 3,032,346</u></b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable & Accruals	\$ 617,288	\$ 35,962	\$ 7,304	\$ 660,554
Due To Other Funds	59,066	14,470	1,531	75,067
Deferred Revenue	122,029	-	141	122,170
Total Current Liabilities	<u>798,383</u>	<u>50,432</u>	<u>8,976</u>	<u>857,791</u>
Noncurrent Liabilities:				
Due To Other Funds/Advances From Other Funds	8,436	-	-	8,436
Deferred Revenue	26,740	-	-	26,740
Total Noncurrent Liabilities	<u>35,176</u>	<u>-</u>	<u>-</u>	<u>35,176</u>
<b>TOTAL LIABILITIES</b>	<b><u>833,559</u></b>	<b><u>50,432</u></b>	<b><u>8,976</u></b>	<b><u>892,967</u></b>
<b>FUND BALANCE</b>				
Reserved for:				
Encumbrances & Contracts	12,401	-	-	12,401
Inventory & Prepaid Expenditures	19,013	-	272	19,285
Noncurrent Receivables	176,424	-	2,630	179,054
Specific Purposes	1,270,267	325,986	75,681	1,671,934
Unreserved Fund Equity	180,780	-	-	180,780
Unreserved, reported in:				
Nonmajor special revenue funds	-	-	74,762	74,762
Nonmajor capital projects funds	-	-	1,163	1,163
<b>TOTAL FUND BALANCE</b>	<b><u>1,658,885</u></b>	<b><u>325,986</u></b>	<b><u>154,508</u></b>	<b><u>2,139,379</u></b>
<b>TOTAL LIABILITIES &amp; FUND BALANCE</b>	<b><u>\$ 2,492,444</u></b>	<b><u>\$ 376,418</u></b>	<b><u>\$ 163,484</u></b>	<b><u>\$ 3,032,346</u></b>

The notes are an integral part of the financial statements.

# STATE OF IOWA

## Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets

June 30, 2003  
(Expressed in Thousands)

**Total Fund Balances-Governmental funds** \$ 2,139,379

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of capital assets, excluding internal service funds, is \$8,495,284,000 and the accumulated depreciation is (\$3,115,577,000). 5,379,707

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. 110,471

Certain revenues are earned but not available and therefore deferred in the funds. 73,944

Certain pension trust funds have been funded in excess of the annual required contributions, creating a year-end asset. This asset is not a current available resource and is not reported in the funds. 15,205

Deferred issue costs are reported a current expenditures in the funds. However, deferred issue costs are amortized over the life of the bonds and are included as Deferred Charges in the governmental activities in the Statement of Net assets. 1,285

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds Payable	(383,355)	
Accrued Interest Payable	(4,178)	
Compensated Absences	(135,346)	
Capital Leases	(4,655)	
Other Financing Arrangements Payable	(6,552)	
Early Retirement Liability	(20,739)	
Gaming Tax Settlement Liability	(102,366)	
Risk Management Liability	(11,500)	
Tobacco Legal Fee Liability	(2,364)	
Other Long-term Liabilities	(21,486)	
Total Long-term liabilities		(692,541)

**Net assets of governmental activities** \$ 7,027,450

The notes are an integral part of the financial statements.

# STATE OF IOWA

## Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds

For the Year Ended June 30, 2003  
(Expressed in Thousands)

	GENERAL FUND	TOBACCO TAX-EXEMPT BOND PROCEEDS FUND	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
<b>REVENUES:</b>				
Taxes	\$ 5,550,582	\$ -	\$ 73,725	\$ 5,624,307
Receipts from Other Entities	3,393,268	1,110	67,600	3,461,978
Investment Income	38,599	21,013	3,521	63,133
Fees, Licenses & Permits	572,132	-	3,769	575,901
Refunds & Reimbursements	740,481	165	37,743	778,389
Sales, Rents & Services	18,470	200	7,423	26,093
Miscellaneous	149,365	-	8,827	158,192
Contributions	-	-	26	26
<b>GROSS REVENUES</b>	<b>10,462,897</b>	<b>22,488</b>	<b>202,634</b>	<b>10,688,019</b>
Less Revenue Refunds	723,092	-	3,246	726,338
<b>NET REVENUES</b>	<b>9,739,805</b>	<b>22,488</b>	<b>199,388</b>	<b>9,961,681</b>
<b>EXPENDITURES:</b>				
Current:				
Administration & Regulation	1,167,352	56,644	1,774	1,225,770
Education	2,587,865	1,875	40,741	2,630,481
State Aid To Universities	610,338	54,333	16,616	681,287
Health & Human Rights	299,855	230	419	300,504
Human Services	3,377,423	5,703	213	3,383,339
Justice & Public Defense	616,464	11,338	11,496	639,298
Economic Development	183,889	6	122	184,017
Transportation	1,021,823	763	-	1,022,586
Agriculture & Natural Resources	139,493	3,814	6,318	149,625
Capital Outlay:				
Health & Human Rights	-	-	2,522	2,522
Justice & Public Defense	-	-	7,578	7,578
Transportation	-	-	1,208	1,208
Agriculture & Natural Resources	-	-	3,355	3,355
<b>TOTAL EXPENDITURES</b>	<b>10,004,502</b>	<b>134,706</b>	<b>92,362</b>	<b>10,231,570</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(264,697)</b>	<b>(112,218)</b>	<b>107,026</b>	<b>(269,889)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In	214,972	5	57,215	272,192
Transfers Out	(19,032)	(30,336)	(109,489)	(158,857)
Leases, Installment Purchases, & Other	1,180	-	-	1,180
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>197,120</b>	<b>(30,331)</b>	<b>(52,274)</b>	<b>114,515</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(67,577)</b>	<b>(142,549)</b>	<b>54,752</b>	<b>(155,374)</b>
<b>FUND BALANCE JULY 1</b>	<b>1,726,462</b>	<b>468,535</b>	<b>99,756</b>	<b>2,294,753</b>
<b>FUND BALANCE JUNE 30</b>	<b>\$ 1,658,885</b>	<b>\$ 325,986</b>	<b>\$ 154,508</b>	<b>\$ 2,139,379</b>

The notes are an integral part of the financial statements.

# STATE OF IOWA

## Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities

For the Year Ended June 30, 2003  
(Expressed in Thousands)

**Net change in fund balances-total governmental funds** \$ (155,374)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	557,137	
Depreciation expense		<u>318,523</u>	
Excess of capital outlay over depreciation expense			238,614

In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. (1,081)

Some capital additions were financed through capital leases, other financing arrangements, and installment purchases. In governmental funds, these financing arrangements are considered a source of funding, but in the statement of net assets, the obligations are reported as liabilities. In the current year, these amounts consist of :

Capital leases	(257)	
Other financing arrangements payable	<u>(921)</u>	
Total		(1,178)

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirement	20,775	
Capital lease payments	1,694	
Other financing arrangements payments	<u>806</u>	
Total long-term debt repayment		23,275

Internal service funds are used by management to charge the cost of certain activities to individual funds. The net revenue of the internal service funds is reported with governmental activities. 8,800

Because some revenues will not be collected for several months after the State's fiscal year end, they are not considered available revenues and are deferred in the governmental funds. 2,129

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. The (increases) decreases in these activities consist of :

Compensated absences	(7,489)	
Tobacco legal fee liability	18,054	
Early retirement liability	6,401	
Gambling tax settlement liability	(1,366)	
Accrued interest	(150)	
Other	<u>(18,603)</u>	
Total additional expenditures		(3,153)

**Change in net assets of governmental activities** \$ 112,032

The notes are an integral part of the financial statements.





## PROPRIETARY FUND FINANCIAL STATEMENTS

### **Major Funds**

**University Funds** are maintained to account for the operations of the State's public institutions of higher education. The State University of Iowa, Iowa State University, and the University of Northern Iowa comprise this group.

**Unemployment Benefits Fund** receives federal funds and contributions from employers to provide benefits to eligible unemployed workers.

**Tobacco Settlement Authority Fund** - This fund accounts for bond proceeds securitized by payments due to the State pursuant to the Master Settlement Agreement between the State and the five largest tobacco manufacturers.

**Nonmajor Proprietary Funds** are presented, by fund type, beginning on page 100.

# STATE OF IOWA

## Statement of Net Assets Proprietary Funds

June 30, 2003  
(Expressed in Thousands)

	BUSINESS- TYPE ACTIVITIES --					GOVERNMENTAL -- INTERNAL SERVICE FUNDS
	ENTERPRISE FUNDS					
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	TOBACCO SETTLEMENT AUTHORITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	
ASSETS						
Current Assets:						
Cash & Investments	\$ 917,874	\$ 684,115	\$ 69,223	\$ 38,825	\$ 1,710,037	\$ 23,563
Cash & Investments - Restricted	36,424	-	-	-	36,424	-
Deposits With Trustees	28,877	-	-	-	28,877	-
Accounts Receivable (Net)	318,396	92,333	-	20,381	431,110	595
Interest Receivable	4,561	-	220	39	4,820	1
Loans Receivable (Net)	6,634	-	-	-	6,634	-
Benefit Overpayment Receivable	-	10,081	-	-	10,081	-
Due From Other Funds/Advances						
To Other Funds	-	209	-	1,894	2,103	55,441
Inventory	39,759	-	-	11,184	50,943	8,041
Prepaid Expenses	8,995	-	-	747	9,742	1,000
Other Assets	943	-	67	-	1,010	-
Investment In Prize Annuity	-	-	-	9,354	9,354	-
Total Current Assets	1,362,463	786,738	69,510	82,424	2,301,135	88,641
Noncurrent Assets:						
Cash & Investments	\$ 363,241	\$ -	\$ -	\$ -	\$ 363,241	\$ -
Deposits With Trustees	325	-	-	-	325	-
Accounts Receivable (Net)	19,200	2,397	-	-	21,597	-
Interest Receivable	1,068	-	-	-	1,068	-
Loans Receivable (Net)	65,300	-	-	-	65,300	290
Benefit Overpayment Receivable	-	10,205	-	-	10,205	-
Due From Other Funds/Advances						
To Other Funds	-	8,061	-	-	8,061	446
Capital Assets - nondepreciable	450,041	-	-	1,112	451,153	-
Capital Assets - depreciable, net	1,698,350	-	-	64,534	1,762,884	79,097
Prepaid Expenses	63	-	-	890	953	-
Other Assets	19,693	-	1,500	656	21,849	-
Investment In Prize Annuity	-	-	-	40,420	40,420	-
Prize Deposit	-	-	-	5,356	5,356	-
Total Noncurrent Assets	2,617,281	20,663	1,500	112,968	2,752,412	79,833
TOTAL ASSETS	3,979,744	807,401	71,010	195,392	5,053,547	168,474
LIABILITIES						
Current Liabilities:						
Accounts Payable & Accruals	172,739	19,233	-	14,234	206,206	59,087
Due To Other Funds/Advances						
From Other Funds	-	1,527	-	2,864	4,391	491
Interest Payable	16,639	-	2,847	1,490	20,976	-
Deferred Revenue	62,051	1,906	-	769	64,726	5,795
Compensated Absences	65,771	-	-	1,408	67,179	688
Capital Leases	6,633	-	-	-	6,633	57
Bonds Payable	48,932	-	1,325	-	50,257	-
Other Financing						
Arrangements Payable	8,365	-	-	10,745	19,110	-
Annuities Payable	-	-	-	9,484	9,484	-
Lottery Prizes Payable	-	-	-	5,101	5,101	-
Funds Held In Custody	141,018	-	-	-	141,018	-
Lease Obligations From						
Discontinued Operations	-	-	-	27	27	-
Total Current Liabilities	522,148	22,666	4,172	46,122	595,108	66,118
Noncurrent Liabilities:						
Accounts Payable & Accruals	27,278	-	-	-	27,278	83
Due To Other Funds/Advances						
From Other Funds	-	-	-	-	-	72
Interest Payable	5,592	-	-	-	5,592	-
Deferred Revenue	4,855	-	-	-	4,855	-
Compensated Absences	58,876	-	-	276	59,152	-
Capital Leases	94,791	-	-	-	94,791	349
Bonds Payable	591,628	-	627,703	-	1,219,331	-
Other Financing						
Arrangements Payable	8,232	-	-	36,191	44,423	-
Annuities Payable	-	-	-	40,420	40,420	-
Refundable Advance On Student Loans	51,986	-	-	-	51,986	-
Other	-	-	-	5,383	5,383	-
Total Noncurrent Liabilities	843,238	-	627,703	82,270	1,553,211	504
TOTAL LIABILITIES	1,365,386	22,666	631,875	128,392	2,148,319	66,622
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	1,510,220	-	-	18,710	1,528,930	78,691
Restricted For:						
Expendable	249,529	-	-	-	249,529	-
Nonexpendable	89,401	-	-	-	89,401	-
Unemployment Benefits	-	784,735	-	-	784,735	-
Unrestricted	765,208	-	(560,865)	48,290	252,633	23,161
TOTAL NET ASSETS	\$ 2,614,358	\$ 784,735	\$ (560,865)	\$ 67,000	2,905,228	\$ 101,852
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(8,619)	
Net assets of business-type activities					\$ 2,896,609	

The notes are an integral part of the financial statements.

# STATE OF IOWA

## Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds

For the Year Ended June 30, 2003  
(Expressed in Thousands)

	BUSINESS- TYPE ACTIVITIES --					GOVERNMENTAL
	ENTERPRISE FUNDS					ACTIVITIES --
	UNIVERSITY	UNEMPLOYMENT	TOBACCO	NONMAJOR		INTERNAL
	FUNDS	BENEFITS	SETTLEMENT	ENTERPRISE	TOTAL	SERVICE
			AUTHORITY	FUNDS		FUNDS
<b>OPERATING REVENUES:</b>						
Employer Contributions	\$ -	\$ 262,714	\$ -	\$ -	\$ 262,714	\$ -
Receipts from Other Entities	10,934	74,920	-	113	85,967	71,004
Fees, Licenses & Permits	896,306	-	-	9,610	905,916	120
Refunds & Reimbursements	-	-	49,772	97	49,869	35,402
Sales, Rents & Services	214,497	-	-	347,770	562,267	785
Grants & Contracts	453,189	-	-	2,345	455,534	-
Independent /Auxiliary Operations	172,861	-	-	-	172,861	-
Miscellaneous	19,263	-	-	-	19,263	5,673
<b>TOTAL OPERATING REVENUES</b>	<b>1,767,050</b>	<b>337,634</b>	<b>49,772</b>	<b>359,935</b>	<b>2,514,391</b>	<b>112,984</b>
<b>OPERATING EXPENSES:</b>						
General & Administrative	-	-	105	38,653	38,758	-
Scholarship & Fellowship	30,898	-	-	-	30,898	-
Depreciation	151,901	-	-	12,326	164,227	10,213
Direct Expense	-	-	-	116,175	116,175	-
Prize Expense	-	-	-	104,199	104,199	-
Personal Services	1,466,844	-	-	9,172	1,476,016	6,526
Travel & Subsistence	32,425	-	-	123	32,548	11,026
Supplies & Materials	217,961	-	-	116	218,077	28,781
Contractual Services	99,267	-	-	3,654	102,921	8,091
Equipment & Repairs	366,987	-	-	21	367,008	8,820
Claims & Miscellaneous	15,050	-	-	489	15,539	38,708
Licenses, Permits & Refunds	1,966	76	-	473	2,515	22
State Aids & Credits	-	444,969	-	2,711	447,680	-
<b>TOTAL OPERATING EXPENSES</b>	<b>2,383,299</b>	<b>445,045</b>	<b>105</b>	<b>288,112</b>	<b>3,116,561</b>	<b>112,187</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(616,249)</b>	<b>(107,411)</b>	<b>49,667</b>	<b>71,823</b>	<b>(602,170)</b>	<b>797</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>						
State Aid to Universities	681,288	-	-	-	681,288	-
Gifts	103,047	-	-	-	103,047	-
Taxes	-	-	-	10,258	10,258	384
Investment Income	48,926	44,779	3,008	1,510	98,223	75
Interest Expense	(31,657)	-	(36,711)	(3,067)	(71,435)	(6)
Miscellaneous Nonoperating Revenue	6,196	-	-	-	6,196	-
Miscellaneous Nonoperating Expense	(330)	-	(61)	(219)	(610)	-
Gain on Sale of Fixed Assets	-	-	-	34	34	-
Loss on Sale of Fixed Assets	(11,212)	-	-	(86)	(11,298)	(604)
<b>NET NONOPERATING REVENUES (EXPENSES)</b>	<b>796,258</b>	<b>44,779</b>	<b>(33,764)</b>	<b>8,430</b>	<b>815,703</b>	<b>(151)</b>
<b>INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS</b>	<b>180,009</b>	<b>(62,632)</b>	<b>15,903</b>	<b>80,253</b>	<b>213,533</b>	<b>646</b>
Capital Contributions and Grants	42,676	-	-	15,125	57,801	-
Transfers In	-	-	-	334	334	2,142
Transfers Out	-	-	(23,959)	(88,849)	(112,808)	(3,003)
Additions to Endowments	555	-	-	-	555	-
<b>CHANGE IN NET ASSETS</b>	<b>223,240</b>	<b>(62,632)</b>	<b>(8,056)</b>	<b>6,863</b>	<b>159,415</b>	<b>(215)</b>
<b>TOTAL NET ASSETS - JULY 1, RESTATED</b>	<b>2,391,118</b>	<b>847,367</b>	<b>(552,809)</b>	<b>60,137</b>		<b>102,067</b>
<b>TOTAL NET ASSETS - JUNE 30</b>	<b>\$ 2,614,358</b>	<b>\$ 784,735</b>	<b>\$ (560,865)</b>	<b>\$ 67,000</b>		<b>\$ 101,852</b>

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds

Change in net assets of business-type activities

(9,015)

**\$ 150,400**

The notes are an integral part of the financial statements.

# STATE OF IOWA

## Statement of Cash Flows Proprietary Funds

For the Year Ended June 30, 2003  
(Expressed in Thousands)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	TOBACCO SETTLEMENT AUTHORITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>						
Cash Received From Customers/Students	\$ 1,168,327	\$ -	\$ -	\$ 341,898	\$ 1,510,225	\$ -
Cash from Miscellaneous	219,259	-	-	2,047	221,306	-
Cash Received From Employers	-	239,813	-	-	239,813	-
Cash Received From Other Entities	461,761	74,920	49,772	-	586,453	8,173
Cash Received From Reciprocal Interfund Activity	-	-	-	-	-	85,023
Cash Payments To Suppliers For Goods & Services	(773,967)	-	(105)	(152,420)	(926,492)	(63,099)
Cash Payments To Employees For Services	(1,638,903)	-	-	(15,367)	(1,654,270)	(17,581)
Cash Payments For Prizes	-	-	-	(112,543)	(112,543)	-
Cash Payments For Unemployment Claims	-	(442,060)	-	-	(442,060)	-
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>(563,523)</u>	<u>(127,327)</u>	<u>49,667</u>	<u>63,615</u>	<u>(577,568)</u>	<u>12,516</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>						
Transfers In From Other Funds	264,934	-	-	331	265,265	2,142
Transfers Out To Other Funds	-	-	(23,959)	(89,169)	(113,128)	(2,943)
Receipts From Grants & Contributions	380,479	-	-	-	380,479	-
Receipts From Related Agencies	532,709	-	-	-	532,709	-
Payments To Related Agencies	(534,488)	-	-	-	(534,488)	-
Other Receipts	430,370	-	-	-	430,370	-
Other Payments	(380,233)	-	-	-	(380,233)	-
Proceeds From Non-Capital Gifts	73,983	-	-	-	73,983	-
Proceeds From Issuance Of Debt	-	-	(1,970)	-	(1,970)	-
Bond Issuance Costs	-	-	(78)	-	(78)	-
Interest Paid	-	-	(35,875)	10,258	(25,617)	-
Tax Receipts	-	-	-	-	-	384
<b>NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES</b>	<u>767,754</u>	<u>-</u>	<u>(61,882)</u>	<u>(78,580)</u>	<u>627,292</u>	<u>(417)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>						
Acquisition & Construction of Capital Assets	(332,151)	-	-	(7,018)	(339,169)	(11,274)
Interest Paid	(31,518)	-	-	(3,287)	(34,805)	-
Debt Payments	(72,529)	-	-	(10,125)	(82,654)	-
Capital Grants & Contributions	50,183	-	-	15,125	65,308	-
Debt Proceeds	115,108	-	-	-	115,108	-
Proceeds From Sale of Capital Assets	2,098	-	-	196	2,294	-
Other	1,096	-	-	-	1,096	2,032
<b>NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<u>(267,713)</u>	<u>-</u>	<u>-</u>	<u>(5,109)</u>	<u>(272,822)</u>	<u>(9,242)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>						
Interest & Dividends On Investments	35,259	44,779	3,033	1,526	84,597	70
Proceeds From Sale & Maturities Of Investments	1,486,838	-	138,246	-	1,625,084	-
Purchase Of Investments	(1,462,609)	-	(108,437)	-	(1,571,046)	-
Other	-	-	-	9,863	9,863	-
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<u>59,488</u>	<u>44,779</u>	<u>32,842</u>	<u>11,389</u>	<u>148,498</u>	<u>70</u>

# STATE OF IOWA

(continued)

	BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS					GOVERNMENTAL ACTIVITIES -- INTERNAL SERVICE FUNDS
	UNIVERSITY FUNDS	UNEMPLOYMENT BENEFITS	TOBACCO SETTLEMENT AUTHORITY	NONMAJOR ENTERPRISE FUNDS	TOTAL	
<b>NET INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS</b>	(3,994)	(82,548)	20,627	(8,685)	(74,600)	2,927
<b>CASH &amp; CASH EQUIVALENTS JULY 1, RESTATED</b>	410,372	766,663	461	47,510	1,225,006	20,636
<b>CASH &amp; CASH EQUIVALENTS JUNE 30</b>	406,378	684,115	21,088	38,825	1,150,406	23,563
<b>INVESTMENTS</b>	940,363	-	48,135	-	988,498	-
<b>LESS DEPOSITS WITH TRUSTEES</b>	(29,202)	-	-	-	(29,202)	-
<b>CASH &amp; INVESTMENTS PER STATEMENT OF NET ASSETS</b>	\$ 1,317,539	\$ 684,115	\$ 69,223	\$ 38,825	\$ 2,109,702	\$ 23,563
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>						
<b>Operating Income (Loss)</b>	\$ (616,249)	\$ (107,411)	\$ 49,667	\$ 71,823	\$ (602,170)	\$ 798
<b>Adjustments To Reconcile Operating Income (Loss) To Net Cash Provided By Operating Activities</b>						
Depreciation	151,901	-	-	12,326	164,227	10,213
(Increase) Decrease In Accounts Receivable	(67,892)	(17,676)	-	(14,380)	(99,948)	(150)
(Increase) Decrease In Benefit Overpayment Receivable	-	(1,363)	-	-	(1,363)	-
(Increase) Decrease In Due From	(5,523)	(5,032)	-	1,054	(9,501)	(19,498)
(Increase) Decrease In Inventory	1,171	-	-	943	2,114	(506)
(Increase) Decrease In Prepaid	(3,787)	-	-	222	(3,565)	148
(Increase) Decrease In Loans Receivable	(2,817)	-	-	-	(2,817)	-
(Increase) Decrease In Other Assets	(14)	-	-	4,810	4,796	-
Increase (Decrease) In Accounts Payable	(28,283)	3,222	-	(637)	(25,698)	21,309
Increase (Decrease) In Due To	-	1,126	-	19	1,145	186
Increase (Decrease) In Deferred Revenue	2,332	(193)	-	296	2,435	(62)
Increase (Decrease) In Compensated Absences And Other Benefits	6,745	-	-	224	6,969	78
Increase (Decrease) In Prizes Payable	-	-	-	1,540	1,540	-
Increase (Decrease) In Prize Annuity	-	-	-	(9,863)	(9,863)	-
Increase (Decrease) In Other Liability	(1,107)	-	-	(4,762)	(5,869)	-
<b>Net Cash Provided By Operating Activities</b>	\$ (563,523)	\$ (127,327)	\$ 49,667	\$ 63,615	\$ (577,568)	\$ 12,516
<b>Noncash capital financing activities:</b>						

Capital assets of \$54,656,529 were acquired through capital lease agreements of \$37,270,030 and gifts of \$17,386,499 by the enterprise funds.

The notes are an integral part of the financial statements.



## FIDUCIARY FUND FINANCIAL STATEMENTS

**Individual fund** descriptions and financial statements begin on page 112.

**STATE OF IOWA**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**

June 30, 2003  
(Expressed in Thousands)

	<b>PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS</b>	<b>PRIVATE- PURPOSE TRUST FUNDS</b>	<b>AGENCY FUNDS</b>
<b>ASSETS</b>			
Cash & Cash Equivalents	\$ 142,563	\$ 3,307	\$ 86,358
Receivables:			
Accounts (Net)	-	139	104,573
Contributions	34,973	-	-
Investment Sold	516,872	-	-
Foreign Exchange Contracts	58,272	-	-
Interest & Dividends	39,740		
Miscellaneous	3,166	-	-
Total Receivables	<u>653,023</u>	<u>139</u>	<u>104,573</u>
Investments, at Fair Value:			
Fixed Income Securities	5,456,862	-	-
Equity Investments	7,341,131	506,193	-
Real Estate Partnerships	820,520	-	-
Investment in Private Equity/Debt	933,505	-	-
Securities Lending Collateral Pool	1,503,952	-	-
Securities on Loan with Brokers	1,439,548	-	-
Foreign Currency	1,786	-	-
Total Investments	<u>17,497,304</u>	<u>506,193</u>	<u>-</u>
Capital Assets:			
Land	500	-	-
Capital Assets (Net)	3,671	86	-
Total Capital Assets	<u>4,171</u>	<u>86</u>	<u>-</u>
Other Assets	<u>-</u>	<u>17</u>	<u>-</u>
<b>Total Assets</b>	<b><u>18,297,061</u></b>	<b><u>509,742</u></b>	<b><u>190,931</u></b>
<b>LIABILITIES</b>			
Accounts Payable & Accruals	20,463	69	190,931
Payable for Investments Purchased	1,081,821	-	-
Payable to Brokers For Rebate & Collateral	1,503,423	-	-
Capital Lease	-	24	-
Other Financing Arrangements Payable	-	311	-
<b>Total Liabilities</b>	<b><u>2,605,707</u></b>	<b><u>404</u></b>	<b><u>190,931</u></b>
<b>NET ASSETS</b>			
Held in Trust for:			
Employees' Benefits	15,691,354	-	-
Individuals, Organizations, and Other			
Governments	-	509,338	-
<b>Total Net Assets</b>	<b><u>\$ 15,691,354</u></b>	<b><u>\$ 509,338</u></b>	<b><u>\$ -</u></b>

The notes are an integral part of the financial statements.



# STATE OF IOWA

## Statement of Changes in Fiduciary Net Assets Fiduciary Funds

For the Year Ended June 30, 2003  
(Expressed in Thousands)

	PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS	PRIVATE PURPOSE TRUST FUNDS
<b>ADDITIONS</b>		
Contributions:		
Member/Participant Contributions	\$ 189,916	\$ 226,041
Employer Contributions	295,104	-
Buy-Back/Buy-In Contributions	12,031	-
Gifts, Bequests, & Endowments	-	159
Total Contributions	497,051	226,200
Investment Income:		
Net Increase (Decrease) in Fair Value of Investments	404,740	25,470
Interest	276,856	77
Dividends	95,116	-
Other	92,375	-
Investment Income	869,087	25,547
Less Investment Expense	49,448	-
Net Investment Income	819,639	25,547
Miscellaneous Non-Investment Income	8,952	-
Total Additions	1,325,642	251,747
<b>DEDUCTIONS:</b>		
Pension and Annuity Benefits	754,277	-
Distribution to Participants	-	9,272
Payments in Accordance with Agreements	847	-
Administrative Expense	8,126	-
Refunds	35,599	-
Other	-	1,374
Total Deductions	798,849	10,646
<b>Change in Net Assets held in Trust for:</b>		
Employees' Benefits	526,793	-
Individuals, Organizations and Other Governments	-	241,101
<b>Net Assets - July 1, Restated</b>	<b>15,164,561</b>	<b>268,237</b>
<b>Net Assets - June 30</b>	<b>\$ 15,691,354</b>	<b>\$ 509,338</b>

The notes are an integral part of the financial statements.



## COMPONENT UNIT FINANCIAL STATEMENTS

**Iowa Finance Authority** issues bonds to assist in attainment of adequate housing for special needs individuals such as the low to moderate income and the disabled, and to provide limited types of financing to small businesses.

**Iowa Higher Education Loan Authority** provides for the financing of educational loans for students attending private educational institutions in the state and financing for acquisition, construction, and renovation of educational facilities.

**Iowa Agricultural Development Authority** undertakes programs which assist beginning farmers in purchasing land, improvements and property, for agricultural purposes and provides financing for agricultural and soil conservation development, and other various agricultural development programs.

**Iowa State Fair Authority** conducts the annual State Fair and Exposition and other interim events on the Iowa State Fairgrounds.

# STATE OF IOWA

## Statement of Net Assets Component Units

June 30, 2003  
(Expressed in Thousands)

	IOWA FINANCE AUTHORITY	IOWA HIGHER EDUCATION LOAN AUTHORITY	IOWA AGRICULTURAL DEVELOPMENT AUTHORITY	IOWA STATE FAIR AUTHORITY	TOTAL COMPONENT UNITS
<b>ASSETS</b>					
Current Assets:					
Cash & Investments	\$ 336,444	\$ 1,071	\$ 693	\$ 4,570	\$ 342,778
Cash & Investments - Restricted	-	346	-	1,980	2,326
Accounts Receivable	-	-	12	714	726
Interest Receivable	7,864	130	44	363	8,401
Loans Receivable (Net)	21,086	3,651	122	-	24,859
Inventory	-	-	-	190	190
Prepaid Expenses	-	98	-	-	98
Other	<u>1,322</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,322</u>
Total Current Assets	<u>366,716</u>	<u>5,296</u>	<u>871</u>	<u>7,817</u>	<u>380,700</u>
Noncurrent Assets:					
Cash & Investments	637,694	-	-	-	637,694
Cash & Investments - Restricted	-	13,310	3,649	-	16,959
Accounts Receivable	-	-	-	500	500
Loans Receivable (Net)	300,285	22,748	1,355	-	324,388
Capital Assets - nondepreciable	-	-	-	15,711	15,711
Capital Assets - depreciable, net	<u>970</u>	<u>1</u>	<u>26</u>	<u>26,644</u>	<u>27,641</u>
Total Noncurrent Assets	<u>938,949</u>	<u>36,059</u>	<u>5,030</u>	<u>42,855</u>	<u>1,022,893</u>
<b>TOTAL ASSETS</b>	<b><u>1,305,665</u></b>	<b><u>41,355</u></b>	<b><u>5,901</u></b>	<b><u>50,672</u></b>	<b><u>1,403,593</u></b>
<b>LIABILITIES</b>					
Current Liabilities:					
Accounts Payable & Accruals	5,856	51	63	1,073	7,043
Interest Payable	16,779	121	-	-	16,900
Deferred Revenue	599	70	-	-	669
Bonds Payable	<u>70,518</u>	<u>1,619</u>	<u>-</u>	<u>-</u>	<u>72,137</u>
Total Current Liabilities	<u>93,752</u>	<u>1,861</u>	<u>63</u>	<u>1,073</u>	<u>96,749</u>
Noncurrent Liabilities:					
Deferred Revenues	5,938	233	-	-	6,171
Compensated Absences	-	-	-	136	136
Bonds Payable	713,067	37,064	-	-	750,131
Other Liabilities	<u>9,571</u>	<u>-</u>	<u>-</u>	<u>61</u>	<u>9,632</u>
Total Noncurrent Liabilities	<u>728,576</u>	<u>37,297</u>	<u>-</u>	<u>197</u>	<u>766,070</u>
<b>TOTAL LIABILITIES</b>	<b><u>822,328</u></b>	<b><u>39,158</u></b>	<b><u>63</u></b>	<b><u>1,270</u></b>	<b><u>862,819</u></b>
<b>NET ASSETS</b>					
Invested in Capital Assets, Net of Related Debt	970	1	26	42,355	43,352
Restricted for Specific Purposes	446,506	1,123	5,144	1,705	454,478
Unrestricted	<u>35,861</u>	<u>1,073</u>	<u>668</u>	<u>5,342</u>	<u>42,944</u>
<b>TOTAL NET ASSETS</b>	<b><u>483,337</u></b>	<b><u>2,197</u></b>	<b><u>5,838</u></b>	<b><u>49,402</u></b>	<b><u>540,774</u></b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b><u>\$ 1,305,665</u></b>	<b><u>\$ 41,355</u></b>	<b><u>\$ 5,901</u></b>	<b><u>\$ 50,672</u></b>	<b><u>\$ 1,403,593</u></b>

The notes are an integral part of the financial statements

# STATE OF IOWA

## Statement of Activities Component Units

For the Year Ended June 30, 2003  
(Expressed in Thousands)

	<b>IOWA FINANCE AUTHORITY</b>	<b>IOWA HIGHER EDUCATION LOAN AUTHORITY</b>	<b>IOWA AGRICULTURAL DEVELOPMENT AUTHORITY</b>	<b>IOWA STATE FAIR AUTHORITY</b>	<b>TOTAL COMPONENT UNITS</b>
Expenses	<u>\$ 49,706</u>	<u>\$ 1,222</u>	<u>\$ 468</u>	<u>\$ 13,470</u>	<u>\$ 64,866</u>
Program Revenues:					
Charges for Service	72,131	1,416	446	13,150	87,143
Operating Grants and Contributions	<u>49,183</u>	<u>-</u>	<u>-</u>	<u>506</u>	<u>49,689</u>
Total Program Revenues	<u>121,314</u>	<u>1,416</u>	<u>459</u>	<u>14,643</u>	<u>137,832</u>
Net Program (Expense) Revenue	<u>71,608</u>	<u>194</u>	<u>(9)</u>	<u>1,173</u>	<u>72,966</u>
General Revenues (Expenses):					
Investment Income	1,705	-	21	114	1,840
Other	<u>190</u>	<u>-</u>	<u>-</u>	<u>335</u>	<u>525</u>
Total General Revenue	<u>1,895</u>	<u>-</u>	<u>21</u>	<u>449</u>	<u>2,365</u>
Change in Net Assets	73,503	194	12	1,622	75,331
<b>Net Assets - July 1</b>	<b><u>409,834</u></b>	<b><u>2,003</u></b>	<b><u>5,826</u></b>	<b><u>47,780</u></b>	<b><u>465,443</u></b>
<b>Net Assets - June 30</b>	<b><u>\$ 483,337</u></b>	<b><u>\$ 2,197</u></b>	<b><u>\$ 5,838</u></b>	<b><u>\$ 49,402</u></b>	<b><u>\$ 540,774</u></b>

The notes are an integral part of the financial statements.

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Basis of Presentation

The accompanying financial statements of the State of Iowa have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

#### B. Financial Reporting Entity

For financial reporting purposes, the State of Iowa includes all funds, departments, agencies and universities of the State. The State has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

As required by GAAP, these financial statements present the State of Iowa (the primary government) and its component units. The component units are included in the State's reporting entity because of the significance of their operational or financial relationships with the State. The individual component unit financial statements can be obtained by contacting: Iowa Department of Administrative Services, State Accounting Enterprise, 3<sup>rd</sup> Floor, Hoover State Office Bldg., Des Moines, IA 50319.

#### Blended Component Units

These component units are entities which are legally separate from the State, but are so intertwined with the State that they are, in substance, the same as the State. They are reported as part of the State's primary government and are blended with the appropriate funds.

- Iowa Public Television Foundation (Special Revenue and Permanent funds) serves as a funding medium for Iowa Public Television. It solicits and manages gifts of money or property, for the exclusive purpose of granting gifts of money or property to Iowa Public

Television. Iowa Public Television has sole discretion as to the use of the money or property. The State appoints a voting majority of the Foundation's board and has the ability to impose its will on the organization, as it can make personnel decisions regarding the management of the Foundation.

- Tobacco Settlement Authority (Enterprise fund) was created to issue bonds to securitize payments due to the State pursuant to the Master Settlement Agreement between the State and the five largest tobacco manufacturers. The Authority's board consists of the Treasurer of State, Auditor of State and the Director of the Department of Management. The State has the ability to impose its will on the Authority and its sole purpose is to provide a secure and stable source of revenue from the tobacco settlement for the State.

#### Component Units

These component units are entities which are legally separate from the State, but are financially accountable to the State, or its relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units include the financial data of these entities.

- Iowa Finance Authority (Proprietary) issues bonds to assist in attainment of adequate housing for special needs individuals such as the low to moderate income and the disabled, and to provide limited types of financing to small businesses. The nine members of the Board of Directors are appointed by the Governor and confirmed by the Senate.
- Iowa Higher Education Loan Authority (Proprietary) provides for the financing of educational loans for students attending private educational institutions in the State and financing for the acquisition, construction, and renovation of educational facilities. The five members of the Board of Directors are appointed by the Governor and confirmed by the Senate. The State has the ability to impose its will upon the Authority.

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

- Iowa Agricultural Development Authority (Proprietary) undertakes programs which assist beginning farmers in purchasing land, improvements and property for agricultural purposes, and provides financing for agricultural and soil conservation development, and other various agricultural development programs. The State appoints a voting majority of the organization and is able to impose its will on the Authority.
- Iowa State Fair Authority (Proprietary) conducts the annual State Fair and Exposition and other interim events on the Iowa State Fairgrounds. The State must approve any bonds issued by the Authority (October 31 year end).

### **Related Organizations**

These related organizations are excluded from the reporting entity because the State's accountability does not extend beyond appointing a voting majority of the organizations' board members. Financial statements are available from the respective organizations.

- Iowa Student Loan Liquidity Corporation
- Iowa Comprehensive Health Association
- Turkey Marketing Council
- Iowa Business Development Finance Corporation
- Community Health Management Information System

### **C. Government-Wide and Fund Financial Statements**

#### **Government-Wide Financial Statements**

The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenue.

#### **Fund Financial Statements**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

#### **D. Financial Statement Presentation**

The State reports the following major governmental funds:

The *General Fund* is the State's principal operating fund. It accounts for all financial resources except those accounted for in another fund.

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

*Tobacco Tax-Exempt Bond Proceeds Fund* accounts for proceeds received from the Tobacco Settlement Authority to provide appropriations for various programs.

The State reports the following major enterprise funds:

*The University Funds* account for the operations of the State's public institutions of higher education. The State University of Iowa, Iowa State University and the University of Northern Iowa comprise this group.

*The Unemployment Benefits Fund* receives federal funds and contributions from employers to provide benefits to eligible unemployed workers.

*Tobacco Settlement Authority* accounts for the bond proceeds securitized by payments due to the State pursuant to the Master Settlement Agreement between the State and the five largest tobacco manufacturers.

In addition, the State reports the following fund types:

### **Governmental Funds**

*Special Revenue Funds* account for the proceeds of specific revenue sources (other than permanent or capital projects) that are legally restricted to expenditures for a specified purpose.

*Capital Projects Funds* account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

*Permanent Funds* account for resources that are legally restricted to the extent that only earnings, and not principal may be used for the benefit of the government or its citizenry.

### **Proprietary Funds**

*Enterprise Funds* account for operations (a) that are financed and operated in a manner similar to private business enterprise – where the intent of the State is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the State has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

*Internal Service Funds* account for the financing of goods or services provided by one department or agency to other departments or agencies of the State, or to other governmental units, on a cost reimbursement basis.

### **Fiduciary Funds**

*Pension and Other Employee Benefit Trust Funds* account for resources that are required to be held for the members and beneficiaries of the State's defined benefit pension plans and other post employment benefit plans. The pension plans included are the Iowa Public Employees' Retirement System (IPERS), Peace Officers' Retirement, Accident and Disability System, and the Judicial Retirement System.

*Private Purpose Trust Funds* account for resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments.

*Agency Funds* account for resources held by the State in a purely custodial capacity.

### **E. Measurement Focus and Basis of Accounting**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Most revenues, including taxes, fees, charges for service, refunds and reimbursements, and receipts from other entities, are considered by the State to be available if collected within 60 days of the end of the fiscal year. Revenues that the State earns by incurring obligations are recognized in the same period as the obligations are recognized. Investment earnings are recorded as earned since they are measurable and available.



# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

Expenditures are recognized when the related fund liability is incurred. An exception to the general modified accrual expenditure recognition criteria is the principal and interest on general long-term debt which is recognized when due. Income tax refunds are accrued for claims related to tax periods ended by June 30, of the fiscal year, and paid within sixty days.

Proprietary and fiduciary fund statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Proprietary funds distinguish operating from nonoperating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary fund's principal ongoing operations. All other revenues and expenses are reported as nonoperating.

In reporting the financial activity of its proprietary funds, the State applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

### **Lottery Revenues and Prizes**

The Lottery uses an on-line instant verification system for the sale and validation of instant tickets. Instant ticket sales are recognized when a retailer settles a pack of tickets. Revenues for pull-tab games are recognized upon the sale of tickets to the retail sales agents. Revenues for Lotto games are recognized after the jackpot drawings are held. Deferred revenue represents lotto tickets sold for future prize drawings.

The prize liabilities for the Lotto games are determined by actual matches and are recognized after the jackpot drawings are held.

### **F. Cash, Investments, and Securities Lending**

Cash in most funds is held in the state treasury and is commingled in State bank accounts and investments. The moneys of most funds are pooled together and invested as an investment pool by the Treasurer of State. However, moneys of some funds may be invested separately from the investment pool where permitted by statute.

Investment earnings of the investment pool are allocated to the individual funds as provided by statute. Income associated with one fund that has been assigned to another fund totaled \$21,857,687 for fiscal year 2003.

The Treasurer's deposits in financial institutions throughout the year and at year end were entirely covered by the Federal Deposit Insurance Corporation, or collateral held by the Treasurer of State's custodial banks in the Treasurer of State's name, or by the bank assessment provisions of Section 12C.23 of the Code of Iowa.

The Treasurer of State may invest in obligations of the United States government, its agencies and instrumentalities; certificates of deposit in Iowa financial institutions; prime bankers acceptances, commercial paper or other short-term corporate debt; perfected repurchase agreements; money market mutual funds organized in trust form; and other investments as permitted by Section 12B.10 of the Code of Iowa.

Investments are valued at fair value in accordance with GASB Statement 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. Fair value is calculated at market price at the close of business on June 30 by independent pricing services utilized by the Treasurer's custodian bank. However, certain cash equivalent investments such as commercial paper, bankers acceptances, certificates of deposit, guaranteed investment contracts, and discount notes issued by government agencies are valued using purchase price. (For Pension plans, See NOTE 18).

Certain State institutions participate in the Iowa Public Agency Investment Trust (IPAIT), a state and local government pooled investment account, created by Iowa Code Chapter 28E. IPAIT is managed by Investors Management Group and is registered with the Securities and Exchange Commission. IPAIT follows established money market mutual fund parameters designed to maintain a \$1 per unit net asset value.

Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, investments readily convertible to known amounts of cash, and investments so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. In the statements of cash flows, investments with an original maturity of three months or less are considered cash equivalents.

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

The Iowa Public Employees Retirement System (IPERS) and the Iowa Peace Officers' Retirement, Accident, and Disability System (PORS) (together the "Systems") participate in a securities lending program with the State's custodian bank. The participation of IPERS is authorized by the Code of Iowa and the participation of PORS is authorized by its Board of Trustees. The custodian bank is responsible for operating the program and is permitted to lend any of the securities it holds in custody for the Systems to broker-dealers and other entities in exchange for collateral. The custodian bank is permitted to accept collateral in the form of cash in U.S. dollars, U.S. government securities, or irrevocable letters of credit. A borrower is required to initially deliver collateral in an amount equal to 102 percent of the market value of any U.S. securities lent and 105 percent of the market value of any non-U.S. securities lent. Borrowers are required to provide additional collateral any time the value of the collateral drops below 100% of the value of the security lent plus accrued interest income. Securities received as collateral cannot be sold or pledged unless the borrower defaults. Securities lent at year-end for cash collateral are presented as unclassified in the schedule of custodial credit risk.

At year-end IPERS had \$496,323 in credit risk exposure to borrowers because the amounts they owed IPERS exceeded the amounts IPERS owed them. Additional collateral was provided the next business day, eliminating this exposure. The contract with the custodian bank requires it to indemnify the System if a borrower fails to return the securities or fails to return all of the income attributable to securities on loan. At year-end PORS had no credit risk exposure. As of June 30, 2003, the Systems had securities on loan, including accrued interest income, with a total value of \$1,439,547,779 against collateral with a total value of \$1,502,071,835.

The majority of securities loans are open loans, i.e. one day maturity, where the rebate rate due the borrower is renegotiated daily. All securities loans can be terminated on demand by either the Systems or the borrower. Cash collateral received from borrowers is invested in a cash collateral investment pool which is managed by the custodian bank in accordance with investment guidelines established by the Systems. The investment guidelines do not require a matching of investment maturities with loan maturities, but do establish minimum levels of liquidity and other investment restrictions designed to minimize the interest rate risk associated with not matching the maturity of the investments with the loans. (See NOTE 2.)

### G. Accounts Receivable

Accounts receivable have been established and offset with proper provisions for estimated uncollectible accounts where applicable. Practically all receivables of governmental funds are due from other

governmental entities, primarily the federal government, and are considered collectible. Receivables in other funds have arisen in the ordinary course of business.

Taxes receivable represent amounts due to the State at June 30, which will be collected sometime in the future. In the government-wide financial statements, a corresponding amount is recorded as revenue. In the governmental fund financial statements, the portion considered "available" is recorded as revenue; the remainder is recorded as deferred revenue.

### H. Inventories

Inventories are valued at cost, which approximates market. The first-in/first-out (FIFO) cost flow method is used for the majority of inventories. Throughout the year costs of inventories are recorded as expenditures when purchased. For financial reporting purposes, expenditures are adjusted at fiscal year end for material inventory amounts to correlate with the consumption method. Inventory asset amounts are not available for budgetary appropriation as they have been charged to expenditures when purchased rather than when used.

Food stamps are recorded as expenditures when disbursed. Amounts on hand at June 30 are reported at face value in the General Fund, offset by a like amount of deferred revenue.

### I. Capital Assets

Capital assets are reported in the government-wide financial statements and proprietary fund statements at historical cost. Donated capital assets are reported at their estimated fair market value at the time of acquisition. Capital assets utilized in governmental funds are reported as expenditures when purchased in the governmental fund financial statements. Reportable capital assets are defined by the State as assets above the following thresholds:

Infrastructure	\$1 million
Land, Building and Improvements	\$ 50,000
Equipment (non-Regent institutions)	\$ 5,000
Equipment (Regents)	\$ 2,000

Capital assets are depreciated over their useful lives using the straight-line depreciation method. The government-wide financial statements, proprietary fund statements, and component unit financial statements report depreciation expense. The following useful lives are used:

Infrastructure	10-50 years
Buildings	20-50 years
Improvements Other Than Buildings	20-50 years
Equipment	2-20 years
Vehicles	3-10 years

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### J. Long-term Liabilities

In the government-wide and proprietary fund financial statements, long-term debt and long-term liabilities are reported as liabilities. Bond issuance costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond discounts and issuance costs for propriety fund types are generally deferred and amortized over the terms of the bonds using the bonds-outstanding method or straight-line method, which approximates the effective interest method.

In governmental fund types, bond discount and issuance costs are recognized in the current period, except for capital appreciation bonds which report discounts similar to proprietary fund types.

Long-term liabilities that are due within one year of the date of the statements are classified as current liabilities.

### K. Interfund Activity and Balances

#### *Interfund Activity*

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct costs and program revenues for the functions concerned.

#### *Interfund Balances*

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

### L. Encumbrances

The State utilizes encumbrance accounting for budgetary control purposes. Obligations incurred for goods or services that have not been received or rendered, are recorded to reserve that portion of the applicable fund balance. Section 8.33, unnumbered paragraph 2, of the Code of Iowa, states, "No payment of an obligation for goods or services shall be charged to an appropriation subsequent to the last day of the fiscal year for which the appropriation is made unless the goods or services are received on or before the last day of the fiscal year, except that repair projects, purchase of specialized equipment and furnishings, and other contracts for services and capital expenditures for the purchase of land or the erection of buildings or new construction or remodeling, which were committed and in progress prior to the end of the fiscal year are excluded from this

provision" That is, except for the above stated exceptions, the State must have received the goods or services on or before June 30, creating an actual liability, or the encumbrance is cancelled against that fiscal year. If the encumbrances are still valid after June 30, they become expenditures / expenses of the next fiscal year.

### M. Budgeting and Budgetary Control

Budgetary comparison schedules and related disclosures are reported as Required Supplementary Information (RSI). As further discussed in the RSI, General Fund expenditures were in excess of revenues resulting in a \$45.8 million deficit. If unresolved by the Governor and or Legislature, this deficit may be a material violation of finance - related legal and contractual provisions.

## NOTE 2 – CASH, INVESTMENTS AND SECURITIES LENDING

### CASH

#### Primary Government and Fiduciary

The carrying amount of cash at June 30 is \$1,210,464,357 and the bank balance is \$1,234,237,163. The bank balance at June 30 is insured or collateralized as follows: \$1,016,603,418 is covered by federal depository insurance or by collateral held by the State's agent in the State's name, \$939,200 is covered by collateral held in the pledging bank's trust department in the State's name, and \$216,694,545 is uninsured or uncollateralized.

#### Component Units

The carrying amount of cash at June 30 is \$30,628,038 and the bank balance is \$30,628,038. The bank balance at June 30 is insured or collateralized by federal depository insurance or by collateral held by the State's agent in the State's name.

### INVESTMENTS

Investments at June 30, 2003, are categorized below by credit risk (expressed in thousands). The three types of credit risk are:

**Category 1** – Insured or registered securities or securities held by the State or its agent in the State's name.

**Category 2** – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.

**Category 3** – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the State's name. (This includes the portion of the carrying amount of any repurchase agreement that exceeds the market value of the underlying securities.)

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### Primary Government

	1	Category 2	3	Fair Value
U.S. Government Securities	\$777,586	\$541,404	\$ 385	\$1,319,375
Equity Securities	22,200	173,313	769	196,282
Fixed Income Securities	240,990	164,262	-	405,252
Asset Backed Securities	<u>3,802</u>	<u>-</u>	<u>-</u>	<u>3,802</u>
	<u>\$1,044,578</u>	<u>\$878,979</u>	<u>\$1,154</u>	1,924,711
Unclaimed Property				7,160
Money Market & Mutual Funds				642,327
Investment Agreements				406,530
Investment Pools				904
Other				<u>665</u>
Total Investments				<u>\$2,982,297</u>

### Fiduciary Funds

	Category 1	Fair Value
U.S. Government Securities	\$ 1,210,768	\$ 1,210,768
Domestic Equity Securities	1,713,892	1,713,892
Domestic Fixed Income Securities	944,181	944,181
International Securities	1,157,660	1,157,660
Foreign Currency	<u>1,786</u>	<u>1,786</u>
	<u>\$ 5,028,287</u>	5,028,287
Securities on Loan		1,439,548
Mutual and Commingled Funds		8,075,978
Short Term Investment Funds		201,711
Real Estate Partnerships		820,527
Investment in Private Equity		933,505
Securities Lending		
Short-Term Collateral		
Investment Pool		<u>1,503,952</u>
Total Investments		<u>\$18,003,508</u>

### Cash & Investment Reconciliation

Investments Per Preceding Schedules:

Primary Government	\$ 2,982,297
Fiduciary Funds	<u>18,003,508</u>
Total	20,985,805

Cash	1,210,464
Outstanding Warrants	(168,246)
Other Reconciling Items	<u>(6,463)</u>

Total Cash & Investments	<u>\$ 22,021,560</u>
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### Component Units

	Category 1	2	Fair Value
U.S. Government Securities	\$42,698	\$455,714	\$498,412
Repurchase Agreements	<u>-</u>	<u>166,067</u>	<u>166,067</u>
	<u>\$42,698</u>	<u>\$621,781</u>	664,479
Money Market & Mutual Funds			92,090
Investment Agreements			212,096
Other			<u>464</u>
Total Investments			<u>\$969,129</u>

### Cash & Investment Reconciliation

Investments Per Above Schedule	\$969,129
Cash	<u>30,628</u>
Total Cash & Investments	<u>\$999,757</u>

### DEPOSITS WITH TRUSTEES

#### Primary Government

The carrying amount of cash at June 30 is \$19,902,726 and the bank balance is \$19,902,726. The bank balance at June 30 is insured or collateralized as follows: \$11,137,441 is covered by federal depository insurance or by collateral held by the State's agent in the State's name, and \$8,765,285 is uninsured or uncollateralized.

The investments at June 30, 2003, for Deposit With Trustees are as follows (expressed in thousands):

	Category 1	2	Fair Value
U.S. Government Securities	\$ -	\$ 3,018	\$ 3,018
Repurchase Agreements	<u>1,341</u>	<u>-</u>	<u>1,341</u>
	<u>\$ 1,341</u>	<u>\$ 3,018</u>	4,359

Mutual Funds	6,461
Investment Agreements	<u>3,121</u>

Total Investments	<u>\$ 13,941</u>
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### Cash & Investment Reconciliation

Investments Per Above Schedule	\$ 13,941
Cash	<u>19,903</u>
Deposits With Trustees	<u>\$ 33,844</u>

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 3 – TRANSFERS

Interfund transfers for the year ended June 30, 2003, consisted of the following (expressed in thousands):

Transferred Out	Transferred In					Total
	General	Tobacco Tax-Exempt Bond Proceeds	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Internal Service	
General	\$ -	\$ -	\$ 16,782	\$ 334	\$ 1,916	\$ 19,032
Tobacco Tax-Exempt Bond Proceeds	22,926	-	7,410	-	-	30,336
Nonmajor Governmental Funds	100,420	5	9,064	-	-	109,489
Tobacco Settlement Authority	-	-	23,959	-	-	23,959
Nonmajor Enterprise Funds	88,849	-	-	-	-	88,849
Internal Service	2,777	-	-	-	226	3,003
Total	<u>\$ 214,972</u>	<u>\$ 5</u>	<u>\$ 57,215</u>	<u>\$ 334</u>	<u>\$ 2,142</u>	<u>\$ 274,668</u>

Transfers are used to move: 1) revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorization, 3) Tobacco Settlement Authority bond proceeds to the State, and 4) profits from the Iowa Lottery Fund and Liquor Control Fund as required by law.

### NOTE 4 – RECEIVABLES

Receivables at June 30, 2003, consisted of the following (expressed in thousands):

	Accounts Receivable	Taxes Receivable	Interest Receivable	Loans Receivable	Benefit Over- payment	Subtotal	Less: allowance	Total Memo Only
Current:								
General	\$ 735,499	\$ 398,197	\$ -	\$ 10,576	\$ -	\$ 1,144,272	\$ 18,633	\$ 1,125,639
Tobacco Tax-Exempt Bond Proceeds	2,245	-	1,665	-	-	3,910	-	3,910
Nonmajor Governmental	3,784	-	-	-	-	3,784	-	3,784
University	560,620	-	4,561	6,946	-	572,127	242,536	329,591
Unemployment Benefits	92,333	-	-	-	10,081	102,414	-	102,414
Tobacco Settlement Authority	-	-	220	-	-	220	-	220
Nonmajor Enterprise Funds	20,769	-	39	-	-	20,808	388	20,420
Internal Service	595	-	1	-	-	596	-	596
Total Current	<u>1,415,845</u>	<u>398,197</u>	<u>6,486</u>	<u>17,522</u>	<u>10,081</u>	<u>1,848,131</u>	<u>261,557</u>	<u>1,586,574</u>
Noncurrent:								
General	248,871	33,580	-	166,482	-	448,933	272,509	176,424
Nonmajor Governmental	2,630	-	-	-	-	2,630	-	2,630
University	19,199	-	1,068	67,436	-	87,703	2,135	85,568
Unemployment Benefits	2,397	-	-	-	20,490	22,887	10,285	12,602
Internal Service	-	-	-	290	-	290	-	290
Total Noncurrent	<u>273,097</u>	<u>33,580</u>	<u>1,068</u>	<u>234,208</u>	<u>20,490</u>	<u>562,443</u>	<u>284,929</u>	<u>277,514</u>
Subtotal	<u>1,688,942</u>	<u>431,777</u>	<u>7,554</u>	<u>251,730</u>	<u>30,571</u>	<u>2,410,574</u>	<u>546,486</u>	<u>1,864,088</u>
Discrete Component Units	<u>1,226</u>	<u>-</u>	<u>8,401</u>	<u>352,139</u>	<u>-</u>	<u>361,766</u>	<u>2,892</u>	<u>358,874</u>
Total	<u>\$ 1,690,168</u>	<u>\$ 431,777</u>	<u>\$ 15,955</u>	<u>\$ 603,869</u>	<u>\$ 30,571</u>	<u>\$ 2,772,340</u>	<u>\$ 549,378</u>	<u>\$ 2,222,962</u>

# STATE of IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 5 – INTERFUND BALANCES

Interfund balances for the year ended June 30, 2003, consisted of the following (expressed in thousands):

Due To Other Funds	Due From Other Funds						Total
	General	Tobacco Tax-Exempt Bond Proceeds	Nonmajor Governmental Funds	Unemployment Benefits	Nonmajor Enterprise Funds	Internal Service	
General	\$ -	\$ 142	\$ 1,928	\$ 209	\$ 1,667	\$ 55,120	\$ 59,066
Tobacco Tax -Exempt Bond Proceeds	14,039	-	399	-	8	24	14,470
Nonmajor Governmental Funds	411	-	999	-	115	6	1,531
Unemployment Benefits	1,527	-	-	-	-	-	1,527
Nonmajor Enterprise Funds	2,827	-	-	-	28	9	2,864
Internal Service	133	-	-	-	76	282	491
Total	<u>\$ 18,937</u>	<u>\$ 142</u>	<u>\$ 3,326</u>	<u>\$ 209</u>	<u>\$ 1,894</u>	<u>\$ 55,441</u>	<u>\$ 79,949</u>

\$52.4 million is due from the General Fund to the Workers Compensation Fund (an Internal Service Fund) to fund the cost of claims incurred, \$13.7 million is due from the Tobacco Tax-Exempt Bond Proceeds Fund to the General Fund per law, for deposit in the community attraction and tourism program. \$2.5 million is due from the Iowa Lottery (an Enterprise Fund) to the General Fund to transfer lottery profits as required by law. Remaining interfund balances resulted from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded, and payment between funds are made.

Not included in the table above are the following interfund advances, which are not expected to be repaid within one year: \$.68 million due from the General Fund and General Services-General Office (an Internal Service Fund) to the Innovation Fund (an Internal Service Fund) for amounts loaned for the purpose of stimulating and encouraging innovation in State government and \$8.1 million due from the General Fund to the Unemployment Benefits Fund (an Enterprise Fund) for amounts loaned for various projects per the Reed Act distribution under Section 903 of the Social Security Act.

### NOTE 6 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2003, was as follows (expressed in thousands):

#### Primary Government

Governmental Activities	Balances July 1, 2002,	Reclassifications	Increases	Decreases	Internal Service Fund	Balances June 30, 2003
Capital Assets, Not Being Depreciated:						
Land	\$ 576,298	\$ (2,456)	\$ 23,136	\$ 1,686	\$ -	\$ 595,292
Construction in Progress	139,342	(105,227)	47,255	-	-	81,370
Total Capital Assets, Not Being Depreciated	<u>715,640</u>	<u>(107,683)</u>	<u>70,391</u>	<u>1,686</u>	<u>-</u>	<u>676,662</u>
Capital Assets Being Depreciated:						
Infrastructure	6,335,828	4,470	462,074	-	-	6,802,372
Works of Art and Historical Treasures	928	-	-	-	-	928
Land Improvements	3,158	3,060	1,715	108	-	7,825
Building and Improvements	705,571	90,792	11,501	1,114	1,412	808,162
Machinery, Equipment and Vehicles	193,658	9,361	11,455	13,727	163,977	364,724
Total Capital Assets Being Depreciated	<u>7,239,143</u>	<u>107,683</u>	<u>486,745</u>	<u>14,949</u>	<u>165,389</u>	<u>7,984,011</u>
Less Accumulated Depreciation for:						
Infrastructure	2,327,804	-	271,336	-	-	2,599,140
Works of Art and Historical Treasures	55	-	9	-	-	64
Land Improvements	388	-	519	31	-	876
Buildings and Improvements	353,838	135	23,396	686	461	377,144
Machinery, Equipment and Vehicles	128,343	(135)	23,263	12,657	85,831	224,645
Total Accumulated Depreciation	<u>2,810,428</u>	<u>-</u>	<u>318,523</u>	<u>13,374</u>	<u>86,292</u>	<u>3,201,869</u>
Total Capital Assets Being Depreciated, Net	<u>4,428,715</u>	<u>107,683</u>	<u>168,222</u>	<u>1,575</u>	<u>79,097</u>	<u>4,782,142</u>
Governmental Activities Capital Assets, Net	<u>\$ 5,144,355</u>	<u>\$ -</u>	<u>\$ 238,613</u>	<u>\$ 3,261</u>	<u>\$ 79,097</u>	<u>\$ 5,458,804</u>

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

<b>Business-type Activities</b>	Balances July 1, 2002	Reclassifications	Increases	Decreases	Balances June 30, 2003
Capital Assets, Not Being Depreciated:					
Land	\$ 24,172	\$ -	\$ 2,543	\$ -	\$ 26,715
Land Improvements	5,415	20	24	-	5,459
Construction in Progress	172,980	(168,187)	225,390	-	230,183
Works of Art	27,481	-	337	-	27,818
Library Collections	<u>151,480</u>	<u>-</u>	<u>11,093</u>	<u>1,595</u>	<u>160,978</u>
Total Capital Assets, Not Being Depreciated	<u>381,528</u>	<u>(168,167)</u>	<u>239,387</u>	<u>1,595</u>	<u>451,153</u>
Capital Assets Being Depreciated:					
Infrastructure	466,077	16,124	5,918	-	488,119
Library Collections	149,649	-	10,931	829	159,751
Land Improvements	35,339	939	1,637	164	37,751
Buildings and Improvements	2,043,430	151,104	13,027	4,945	2,202,616
Machinery, Equipment and Vehicles	<u>842,435</u>	<u>-</u>	<u>112,124</u>	<u>71,807</u>	<u>882,752</u>
Total Capital Assets Being Depreciated	<u>3,536,930</u>	<u>168,167</u>	<u>143,637</u>	<u>77,745</u>	<u>3,770,989</u>
Less Accumulated Depreciation for:					
Infrastructure	244,180	-	22,101	4	266,277
Library Collections	114,283	-	7,766	830	121,219
Land Improvements	17,639	120	1,488	-	19,247
Buildings and Improvements	975,546	-	64,367	242	1,039,671
Machinery, Equipment and Vehicles	<u>553,143</u>	<u>(120)</u>	<u>68,505</u>	<u>59,837</u>	<u>561,691</u>
Total Accumulated Depreciation	<u>1,904,791</u>	<u>-</u>	<u>164,227</u>	<u>60,913</u>	<u>2,008,105</u>
Total Capital Assets Being Depreciated, Net	<u>1,632,139</u>	<u>168,167</u>	<u>(20,590)</u>	<u>16,832</u>	<u>1,762,884</u>
Business-type Activities Capital Assets, Net	<u>\$ 2,013,667</u>	<u>\$ -</u>	<u>\$ 218,797</u>	<u>\$ 18,427</u>	<u>\$ 2,214,037</u>

Depreciation was charged to functions of the primary government as follows (expressed in thousands):

Administration & Regulation	\$ 6,359
Education	2,180
Health & Human Rights	1,914
Human Services	10,790
Justice & Public Defense	17,172
Economic Development	577
Transportation	273,970
Agriculture & Natural Resources	<u>5,561</u>
Subtotal	<u>318,523</u>

Depreciation on Capital Assets held by the State's Internal Service Funds is allocated to the various functions based on their use of the assets

10,213

Total Depreciation Expense-Governmental Activities

\$ 328,736

Business-type Activities:

Enterprise

\$ 164,227

### Discrete Component Units

Land	\$ 3,115
Construction in Progress	<u>12,596</u>
Total Capital Assets, not being depreciated	<u>15,711</u>
Infrastructure	4,574
Buildings and Improvements	34,627
Machinery, Equipment and Vehicles	<u>4,049</u>
Total Capital Assets, being depreciated	43,250
Less Accumulated Depreciation	<u>(15,609)</u>
Total Capital Assets being depreciated, Net	<u>27,641</u>
Discretely Presented Component Units Capital Assets, Net	<u>\$ 43,352</u>

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 7 – INVESTMENT IN PRIZE ANNUITIES AND ANNUITY PRIZES PAYABLE

Assets totaling \$49,944,598, which includes \$170,155 of cash, are held by the Iowa Lottery for the purpose of paying installment prizes which have already been won but will not be completely paid until 2018. Annuity Prizes Payable does not include an additional liability of \$39,655 to taxing authorities. The following is a schedule of future payments (expressed in thousands):

Year Ending June 30,	Current	Noncurrent	Total Payments
2004	\$ 9,901	\$ -	\$ 9,901
2005	-	9,901	9,901
2006	-	9,355	9,355
2007	-	8,152	8,152
2008	-	6,340	6,340
2009-2013	-	12,415	12,415
2014-2018	-	6,258	6,258
Total Future Value	9,901	52,421	62,322
Less: Unamortized Discount	(417)	(12,001)	(12,418)
Present Value of Payments	<u>\$ 9,484</u>	<u>\$ 40,420</u>	<u>\$ 49,904</u>

### NOTE 8 – CHANGES IN LONG-TERM LIABILITIES

Changes in Long-Term liabilities for the year ended June 30, 2003, are summarized as follows (expressed in thousands):

#### Governmental Activities

	Balances July 1, 2002	Additions	Deductions	Balances June 30, 2003
Compensated Absences	\$ 127,856	\$ 113,846	\$ 106,356	\$ 135,346
Capital Leases	6,092	257	1,694	4,655
Other Financing Arrangements	6,437	921	806	6,552
Revenue Bonds	404,130	-	20,775	383,355
Early Retirement	27,140	182	6,583	20,739
Risk Management	11,500	6,868	6,868	11,500
Tobacco Legal Fee	20,418	-	18,054	2,364
Gaming Settlement Tax	101,000	1,366	-	102,366
Other Liabilities	8,107	13,870	118	21,859
Total	<u>712,680</u>	<u>137,310</u>	<u>161,254</u>	<u>688,736</u>

#### Allocation of Internal Service

##### Funds Liability:

Capital Leases	460	-	54	406
Compensated Absences	685	802	799	688
Early Retirement	158	-	44	114
Total	<u>1,303</u>	<u>802</u>	<u>897</u>	<u>1,208</u>

#### Total Primary Government - Governmental Activities

	<u>\$ 713,983</u>	<u>\$ 138,112</u>	<u>\$ 162,151</u>	<u>\$ 689,944</u>
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#### Business-type Activities

Compensated Absences	\$ 119,689	\$ 71,394	\$ 64,752	\$ 126,331
Revenue Bonds	1,235,806	105,955	72,173	1,269,588
Capital Leases	70,454	34,083	3,113	101,424
Other Financing Arrangements	62,018	12,968	11,453	63,533
Total	<u>\$ 1,487,967</u>	<u>\$ 224,400</u>	<u>\$ 151,491</u>	<u>\$ 1,560,876</u>



# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 9 – CAPITAL LEASES

The State has entered into agreements to lease various equipment and property. The agreements have interest rates ranging from 2.50% to 14.38% and expire before June 30, 2022.

The State has also entered into a few installment purchase agreements. The agreements have interest rates ranging from 4.75% to 7.20%. Because the amounts involved are not material, and the accounting treatment is similar, such agreements are reported together with capital leases.

#### **Primary Government – Governmental Activities**

The following is a schedule by year of the future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2004	\$ 1,365	\$ 272
2005	1,038	198
2006	676	143
2007	531	107
2008	539	73
2009-2013	867	139
2014-2018	<u>45</u>	<u>1</u>
Total	<u>\$ 5,061</u>	<u>\$ 933</u>

The historical cost of assets acquired under capital leases and included in capital assets on the government-wide statements at June 30 follows (expressed in thousands):

Buildings and Improvements	\$ 1,133
Equipment	<u>2,633</u>
Total	3,766
Accumulated Depreciation	<u>(1,493)</u>
Net	<u>\$ 2,273</u>

#### **Primary Government – Business-Type Activities**

The following is a schedule by year of the future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2004	\$ 6,633	\$ 5,979
2005	9,826	4,672
2006	4,810	4,250
2007	3,947	4,070
2008	4,014	3,905
2009-2013	22,617	16,249
2014-2018	25,582	9,869
2019-2023	<u>23,995</u>	<u>5,086</u>
Total	<u>\$ 101,424</u>	<u>\$ 54,080</u>

The historical cost of assets acquired under capital leases and included in capital assets on the financial statements at June 30, follows (expressed in thousands):

Construction in Progress	\$ 13,481
Buildings	105,470
Infrastructure	510
Equipment	<u>10,459</u>
Total	129,920
Accumulated Depreciation	<u>(23,678)</u>
Net	<u>\$ 106,242</u>

### NOTE 10 – OTHER FINANCING ARRANGEMENTS PAYABLE

#### **Loans and Contracts Payable**

##### **Primary Government – Governmental Activities**

The Iowa Department of Natural Resources has entered into agreements for facilities and land for a total of \$6,704,459 with interest rates ranging from 3.92% to 9.35%. The following is a schedule by year of the future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2004	\$ 265	\$ 159
2005	279	146
2006	294	132
2007	308	116
2008	323	100
2009-2013	908	334
2014-2018	706	175
2019-2023	<u>339</u>	<u>41</u>
Total	<u>\$ 3,422</u>	<u>\$ 1,203</u>

##### **Primary Government – Business-Type Activities**

Iowa State University and the University of Iowa have entered into agreements for buildings and equipment for a total of \$21,386,000. The agreements are for periods of 5 to 13 years with interest rates ranging from 2.00% to 5.95%. The following is a schedule by year of future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2004	\$ 8,365	\$ 636
2005	1,118	429
2006	4,941	261
2007	686	107
2008	720	73
2009-2013	<u>767</u>	<u>119</u>
Total	<u>\$ 16,597</u>	<u>\$ 1,625</u>

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### Certificates of Participation

#### **Primary Government – Governmental Activities**

The First, Third, Fifth and Sixth Judicial Districts have sold certificates of participation for land and facilities for \$5,600,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over periods from 6 to 20 years with interest rates ranging from 3.00% to 4.73%.

In prior years, the Sixth Judicial District Department of Correctional Services defeased certain Certificates of participation by placing the proceeds of the new certificates in an irrevocable trust to provide future debt service payments on the old Certificates of Participation. Accordingly, the trust account assets and the liability for the defeased Certificates of Participation are not included in the State's financial statements. As of June 30, 2003, Certificates of Participation totaling \$570,000 were considered defeased.

The following is a schedule by year of the future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2004	\$ 635	\$ 138
2005	460	111
2006	475	92
2007	540	72
2008	440	49
2009-2013	<u>580</u>	<u>59</u>
Total	<u>\$3,130</u>	<u>\$ 521</u>

#### **Primary Government – Business-Type Activities**

The Department of General Services has sold certificates of participation (COPS) for the Iowa Communications Network of \$114,530,000. The certificates of participation represent an ownership interest of the certificate holder in a lease purchase agreement. The certificates mature over the next 5 years with interest rates ranging from 3.65% to 6.25%. The following is a schedule by year of the future minimum payments required (expressed in thousands):

Year ending June 30,	Principal	Interest
2004	\$ 10,745	\$ 2,642
2005	11,415	1,945
2006	12,135	1,201
2007	<u>12,900</u>	<u>409</u>
Total	47,195	<u>\$ 6,197</u>
Unamortized Discount	<u>(259)</u>	
Total COPS Payable	<u>\$ 46,936</u>	

### NOTE 11 – BONDS PAYABLE

Revenue bonds payable at June 30, 2003, are as follows (expressed in thousands):

	ISSUE DATES	ORIGINAL ISSUANCE	INTEREST RATE	MATURITY DATE RANGE	OUTSTANDING PRINCIPAL
<b>PRIMARY GOVERNMENT – Governmental Activities:</b>					
<b>Revenue Bonds</b>					
<i>Term Bonds</i>					
Underground Storage Tank	1991 & 1994	\$13,155	Variable	2010-2015	\$ 13,155
Department of Corrections	1994-1996	33,510	Variable	2014-2016	<u>1,515</u>
Total					<u>\$ 14,670</u>
<i>Serial Bonds</i>					
Underground Storage Tank	1991 & 1994	\$99,130	Variable	1991-2012	\$ 54,095
Department of Corrections	1994-1996	64,530	Variable	2014-2016	71,795
Vision Iowa	2002	196,375	2.25-5.50	2002-2020	182,105
School Infrastructure	2002	48,585	4.0-5.0	2002-2021	<u>41,555</u>
Total					<u>\$ 349,550</u>
<i>Capital Appreciation Bonds</i>					
Underground Storage Tank	1991	\$10,175	Variable	2001-2004	<u>\$ 3,490</u>
Unamortized Premium					15,752
Unamortized Discounts					<u>(107)</u>
Total Governmental Activities					<u>\$ 383,355</u>

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### PRIMARY GOVERNMENT – Business-Type Activities

#### Revenue Bonds

University of Northern Iowa	1964-2003	\$ 141,746	1.80-8.25%	1966-2023	\$ 113,048
University of Iowa	1964-2003	459,010	2.00-9.00%	1967-2023	264,085
Iowa State University	1964-2003	362,095	1.75-6.85%	1967-2030	263,520
Tobacco Settlement Authority	2002	644,265	5.30-6.79%	2003-2027	<u>642,275</u>
Total					1,282,928
Unamortized Discount					<u>(13,340)</u>
Total Business-type Activities					<u>\$1,269,588</u>

### COMPONENT UNITS:

#### Revenue Bonds

Iowa Finance Authority	1977-2003	\$ 1,221,870	Variable	1999-2032	\$ 789,699
Iowa Higher Education Loan Authority	1984-1996	50,630	Variable	1999-2016	<u>38,685</u>
Total					828,384
Unamortized Issuance Costs and Discounts					<u>(6,116)</u>
Total Component Units					<u>\$ 822,268</u>

\*Includes unamortized issuance costs and discounts of \$6,114,185 for the Iowa Finance Authority and \$1,584 for the Iowa Higher Education Loan Authority.

### Bonds Payable

#### Primary Government – Governmental Activities

##### Underground Storage Tank

The Iowa Finance Authority has issued term bonds, serial bonds, and capital appreciation bonds to finance the Underground Storage Tank Financial Responsibility Program. The program provides payment for remediation claims of contamination of ground water sites due to leakage, spill or release of petroleum products by owner/operators. The bonds are payable solely from specific revenues and assets of the Underground Storage Tank Fund.

The obligations do not constitute a debt of the State of Iowa nor of the Iowa Finance Authority and neither is liable for any repayments.

In prior years, the Iowa Finance Authority defeased certain Iowa Underground Storage Tank Revenue Bonds by placing the proceeds of new bonds in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, the assets and the liability for those bonds has been removed from the Statement of Net Assets. As of June 30, 2003, bonds totaling \$26,175,000 were considered defeased.

### Iowa Department of Corrections

The Iowa Finance Authority has issued term and serial bonds for the purpose of financing the construction or renovation of correctional facilities in the State. The Iowa Department of Corrections administers the State's correctional facilities and authorizes expenditures under the program. The bonds are payable solely from monies deposited in the Iowa Prison Infrastructure Fund maintained by the Treasurer of State, currently required by state law to be the first \$9,500,000 of monies remitted to the Treasurer of State each fiscal year from certain fees and fines collected from the clerks of district court in criminal cases, investment earnings on monies in the Iowa Prison Infrastructure Fund, and from other amounts pledged therefore under the bond indenture. These obligations do not constitute a debt of the State of Iowa, nor of the Iowa Finance Authority, and neither is liable for any repayments.

In prior years, the Iowa Finance Authority defeased certain Corrections Bonds by placing the proceeds in an irrevocable trust with an escrow agent to provide for all future debt service payments. As a result, the bonds are considered to be defeased and the asset and liability for those bonds has been removed from the Statement of Net Assets. As of June 30, 2003 bonds totaling \$54,240,000 were considered defeased.

### Vision Iowa Fund

The State of Iowa has issued Vision Iowa Special Fund bonds to provide grants or loans to communities to enhance local recreational, cultural and entertainment opportunities.

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

The bonds are secured by certain amounts to be deposited in the Vision Iowa Fund, including a Standing Appropriation of \$15,000,000 annually from gaming revenues, certain earnings on the Vision Iowa Fund and the Bond Reserve Fund, and to the extent of any shortfall in gaming revenues, Lottery revenues.

The bonds are not debts of the State or any political subdivision of the State, and do not constitute a pledge of the faith and credit of the State or a charge against the general credit or General Fund of the State. The bonds are payable solely and only from certain revenues deposited in the Vision Iowa Fund and from the Bond Reserve Fund.

### School Infrastructure Fund

The State of Iowa has issued School Infrastructure Special Fund Bonds Series to assist local schools districts with the construction and renovation of facilities. The fund will provide grants totaling \$50 million. Each grant is limited to \$1 million and requires a local match.

The bonds are secured by certain amounts to be deposited in the School Infrastructure Fund, including a Standing Appropriation of \$5,000,000 annually from gaming revenues, certain earnings on the Iowa School Infrastructure Fund and the Bond Reserve Fund, and, to the extent of any shortfall in gaming revenues, Lottery revenues.

The bonds are not debts of the State or any political subdivision of the State, and do not constitute a pledge of the faith and credit of the State or a charge against the general credit or General Fund of the State. The bonds are payable solely and only from certain revenues deposited in the School Infrastructure Fund and from the Bond Reserve Fund.

Future bond debt service requirements of the Primary Government – Governmental Activities are as follows (expressed in thousands):

Year ending	Principal	Interest
June 30,		
2004	\$ 19,480	\$ 18,117
2005	19,775	17,317
2006	20,620	16,411
2007	21,585	15,464
2008	22,680	14,533
2009-2013	117,520	55,929
2014-2019	93,180	27,695
2020-2024	<u>52,870</u>	<u>5,265</u>
Total	<u>\$367,710</u>	<u>\$170,731</u>

### Primary Government – Business-Type Activities Universities

Iowa State University, the University of Northern Iowa and the University of Iowa have issued revenue bonds for the construction of buildings, facilities, utilities and equipment. The bonds are payable principally from tuition and user fee revenues.

During the current fiscal year, the University of Iowa issued \$10,530,000 of Academic Building Revenue Refunding Bonds, Series 2003, with an average interest rate of 3.5% to advance refund \$10,485,000 of outstanding Academic Building Revenue bonds, Series S.U.I. 1993 with an average interest rate of 4.75%.

Net bond proceeds of \$10,485,000 were placed in an irrevocable escrow account with the University as trustee.

The advance refunding resulted in the recognition of an accounting loss of (\$45,000) for the year ended June 30, 2003, a decrease in aggregate debt service of \$442,531 over the next 18 years and an economic gain (difference between present value of the old and new debt service payments) of \$633,706.

During the current fiscal year, the University of Iowa issued \$6,080,000 Utility Systems Revenue Refunding Bonds, Series 2003, with an average interest rate of 2.43% to advance refund \$6,345,000 of outstanding Utility Systems Revenue Bonds, Series S.U.I. 1993 with an average interest rate of 3.95%.

Net bond proceeds of \$6,121,520 were placed in an irrevocable escrow account with the University as trustee. \$456,956 from Utility System Debt Service Reserve Fund were used in addition to the bond proceeds.

The advance refunding resulted in the recognition of an accounting gain of \$265,000 for the year ended June 30, 2003, a decrease in aggregate debt service of \$387,754 over the next seven years and an economic gain (difference between present values of the old and new debt service payments) of \$487,374.

As a result Bonds totaling \$16,830,000 are considered defeased and the liability has been excluded from the Statement of Net Assets.

In prior years, the University of Iowa defeased certain revenue bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the State's financial statements. As of June 30, 2003, bonds totaling \$12,285,000 for the University of Iowa were considered defeased.

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

During fiscal year 2003, Iowa State University issued \$30,935,000 of Dormitory System Revenue Bonds Series 2003 with an interest rate range of 3.5-5.00% to construct and furnish the dormitory facilities system.

During fiscal year 2003, the University of Northern Iowa issued \$17,675,000 of Revenue Bonds Series 2003 with an interest rate range of 3.00-4.75% to defray the cost for construction of academic buildings (\$8,465,000), constructing and equipping the dormitories (\$9,210,000).

### **Tobacco Settlement Authority**

The Tobacco Settlement Authority has issued \$40,000,000 of Tobacco Settlement Asset-Backed Bonds, Series A (Federally Taxable) and \$604,245,000 Tobacco Settlement Asset-Backed Bonds, Series B with interest rates of 5.30-6.79%.

The bonds were being issued by the Tobacco Settlement Authority (the "Authority"), a public instrumentality and agency of the State of Iowa (the "State"), separate and distinct from the State, exercising public and essential governmental functions, and created by the Tobacco Settlement Authority Act (the "Act"). Pursuant to a Sales Agreement, dated as of October 1, 2001 (the "Sales Agreement"), between the State and Authority, the State will sell to the Authority, on the Closing Date, all of its right, title and interest in certain amounts payable to the State under the Master Settlement Agreement (the "MSA") entered into by participating cigarette manufacturers (the "PMs"), 46 states (including the State) and six other U.S. jurisdictions in November 1998 in the settlement of certain smoking-related litigation, including the State's right to receive future initial, annual and strategic contribution fund payments (the "TSRs"), to be made by the PMs under the MSA.

The bonds are secured by and are payable solely from (i) 78% of the TSRs payable to the Authority in the future as of the effective date of the Sales Agreement (the "Pledged TSRs"), (ii), investment earnings on certain accounts pledged under the Indenture (which earnings, together with the Pledged TSRs, are referred to herein as the "Collections"), (iii) amounts held in the debt service reserve account (the "Debt Service Reserve Account") and the trapping account (the "Trapping Account") established under the Indenture (the "Reserves"), (iv) amounts held in the other accounts established under the Indenture, and (v) certain rights of the Authority as specified in the Sales Agreement. Pledged TSRs represent a pro rata

portion of every TSR dollar received by the Authority pursuant to the Sales Agreement.

The bonds are special revenue obligations of the Authority secured by, and payable solely and only out of, the moneys, assets or revenues pledged by the Authority pursuant to the indenture, are not a general obligation or general indebtedness of the authority, and do not constitute an obligation or indebtedness of the State or any political subdivision of the State.

Future bond debt service requirements for bonds of the Primary Government – Business-Type Activities are as follows (expressed in thousands):

Year ending June 30,	Principal	Interest
2004	\$ 50,257	\$ 67,298
2005	40,268	66,610
2006	38,831	65,182
2007	40,785	63,656
2008	55,642	61,667
2009-2013	310,808	251,535
2014-2019	272,007	166,357
2020-2024	233,585	102,865
2025-2029	235,415	36,642
2030-2034	<u>5,330</u>	<u>194</u>
Total	<u>\$ 1,282,928</u>	<u>\$ 882,006</u>

### **Component Units**

#### **Iowa Finance Authority**

The Iowa Finance Authority is authorized and has issued bonds, the proceeds of which are used to provide authorized mortgage financing. The bonds are payable principally from repayments of such mortgage loans. The obligations do not constitute a debt of the State of Iowa and the State is not liable for any repayments.

The bonds are secured, as described in the applicable bond resolution, by the revenues, monies, investments, loans, and other assets in the funds and accounts established by the respective bond resolutions. The line of credit under the Single Family Bond Program Funds is secured by investments held by a custodial financial institution in an amount equal to or exceeding 102% of the outstanding advances as required by the credit agreement. The line of credit under the Finance Authority's General Fund is secured by investments held by a custodial financial institution in an amount no less than \$2 million and is a general obligation of the Authority.

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

The Single Family Mortgage Bond Resolutions, the Single Family Housing Bond Resolutions, and the Multi-Family Bond Resolution contain covenants which require the Authority to make payments of principal and interest from amounts available in the Finance Authority's General Fund should deficiencies occur in the funds established for such payments by the respective bond resolutions. The Single Family Mortgage Revenue Bond Resolution, the credit agreement under the Single Family Bond program Funds, the Multi-Family Housing Refunding Revenue Bond Resolution, and the bond resolutions for the Clean Water Program Funds and Drinking Water Program Funds do not contain these covenants.

In prior years, the Authority defeased certain Iowa State Revenue bonds by placing the proceeds of new bonds along with certain Federal Capitalization Grants and revenues in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1991, 1992, 1993, 1994, 1995, 1996, 1997 and 1998 Series of Iowa Revolving Fund Revenue bonds; 2001 Series Clean Water State Revenue Subordinated Bond Anticipation Notes; and 1999 and 2000A Series of Drinking Water Program Revenue Bonds. As of June 30, 2003, bonds totaling \$220,830,000 are considered defeased.

### Iowa Higher Education Loan Authority

The Iowa Higher Education Loan Authority is authorized and has issued bonds to provide educational loans to students and facility loans to private educational institutions in the State of Iowa. The bonds are payable primarily from interest and principal payments of the educational and facility loans.

The Iowa Higher Education Loan Authority has no taxing authority and bonds issued do not constitute a debt, liability, or obligation of the State of Iowa or any political subdivision thereof.

Future bond debt service requirements for the bonds of the component units are as follows (expressed in thousands):

Year ending June 30,	Principal	Interest
2004	\$ 37,440	\$ 38,336
2005	24,995	37,786
2006	27,690	36,577
2007	29,050	35,316
2008	29,755	33,923
2009-2013	159,672	147,196
2014-2018	159,158	108,324
2019-2023	116,185	79,341
2024-2028	109,970	50,545
2029-2033	<u>134,469</u>	<u>21,552</u>
Total	<u>\$828,384</u>	<u>\$588,896</u>

### NOTE 12 – ACCOUNTS PAYABLES & ACCRUALS

Accounts Payables & Accruals at June 30, 2003, consisted of the following (expressed in thousands):

#### Primary Government

##### Government Activities

	Current	Non Current
Salaries and fringes	\$ 32,241	\$ -
Early retirement	5,925	14,928
General claims	1,101	102,366
Risk management	4,255	7,245
State aid	307,629	-
Trade and other payable	<u>394,635</u>	<u>6,887</u>
Total governmental activities	<u>\$ 745,786</u>	<u>\$ 131,426</u>

##### Business-type Activities

	Current	Non Current
Salaries and fringes	\$ 53,406	\$ -
Early retirement	8,246	14,786
General claims	19,773	-
Unemployment benefits	19,233	-
Trade and other payable	<u>105,548</u>	<u>13,461</u>
Total business-type activities	<u>\$ 206,206</u>	<u>\$ 28,247</u>

### NOTE 13 – LEASE OBLIGATIONS FROM DISCONTINUED OPERATIONS OF PRIOR YEARS

The aggregate amounts of required payments on noncancellable leases and receipts from the related subleases at June 30, 2003 are as follows (expressed in thousands)

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### Enterprise Funds

Year ending June 30,	Lease	Sublease	Net
2004	\$ 43	\$ 32	\$ 11
2005	38	27	11
2006	24	18	6
2007	15	13	2
2008	<u>1</u>	<u>-</u>	<u>1</u>
Total	\$ 121	\$ 90	\$ 31
Less Amount Representing Interest	<u>14</u>	<u>10</u>	<u>4</u>
Present Value of Lease Obligation	<u>\$ 107</u>	<u>\$ 80</u>	<u>\$ 27</u>

### NOTE 14 - DEFICIT RETAINED EARNINGS

Funds reporting a deficit fund position at June 30, 2003, are as follows (expressed in thousands):

Fund Type/Fund Name	Deficit Balances
Capital Projects:	
Fish and Game Capitals	\$ 422
Enterprise:	
Tobacco Settlement Authority	560,865
Internal Service:	
Regent's Auto Liability	115

The deficit in the Enterprise Fund, Tobacco Settlement Authority exists because U.S. generally accepted accounting principles preclude the Tobacco Settlement Authority from recognizing amounts to be received in the future from participating cigarette manufacturers under the Master Settlement Agreement.

### NOTE 15 - FUND BALANCE - RESERVED FOR SPECIFIC PURPOSES

The Reserve for Specific Purposes Fund Balance in the Governmental Funds represents the portion of fund balance legally segregated for a specific future use. A summary of these reserves at June 30, 2003, follows (expressed in thousands):

### Major Funds

#### General Fund:

Senior Living Trust	\$ 367,039
Primary Road	248,940
Vision Iowa	162,378
Road Use Tax	80,664
Farm to Market Road Funds	68,974
Revitalize Iowa's Sound Economy	48,175
Motor Vehicle Fuel Tax Unapportioned	36,066
UST Remedial	32,761
UST Innocent Landowners	31,950
Unassigned Revenue	20,290
Iowa Infrastructure	19,883
Safety Improvement Program	16,694
Terminal Liability Health Insurance	16,097
Health Insurance Premium Operating	13,574
UST Capital Reserve	9,637
UST Marketability	9,110
Underground Storage Tank Revenue	8,911
Hospital Trust Fund	8,144
School Infrastructure and Reserve	6,710
County Bridge Construction	5,372
Hawk I Trust	4,455
Tobacco Settlement	3,783
Health Insurance Premium Reserve	3,688
Value Added Products	3,354
Life Insurance Optional Premium Reserve	3,119
DOT Operating Fund	3,073
Resource Enhancement & Protection	3,054
ICSAC-Default Reduction Act	2,719
Life Insurance Basic Premium Operating	2,496
Gifts, Bequests & Program Income	2,452
DOT Clearing Account	2,432
Asset Sharing	1,758
Gates Foundation Leadership Grant	1,744
Life Insurance Basic Premium Reserve	1,706
Dental Insurance Premium Operating	1,555
EXXON Oil Overcharge Settlement	1,280
Iowa School for the Deaf	1,267
Dental Insurance Premium Reserve	1,185
Underground Storage Tank Loan Guarantee	1,093
Other	<u>12,685</u>
Total General Fund	<u>1,270,267</u>

#### Special Revenue:

Tobacco Tax-Exempt Bond Proceeds	<u>325,986</u>
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#### Nonmajor Governmental Funds:

Endowment for Iowa's Health	\$ 27,330
College Aid Federal Reserve	21,544
Permanent School Principal	7,583
Iowa Public Television Foundation Endowment	1,448
Other	<u>17,776</u>
Total Nonmajor Governmental Funds	<u>75,681</u>

Total \$ 1,671,934

### NOTE 16 - OPERATING LEASES

The State has leased office space and equipment. These leases have been classified as operating leases and expire before June 30, 2041. In most cases, management expects that the leases will be renewed or replaced by other leases. The future minimum lease payments for these leases are as follows (expressed in thousands):

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### Primary Government – Governmental Activities:

Year ending June 30,

2004	\$ 11,834
2005	9,714
2006	6,658
2007	3,968
2008	2,090
2009-2013	1,456
2014-2018	216
2019-2023	212
2024-2028	220
2029-2033	242
2034-2038	266
2039-2041	<u>184</u>

Total \$ 37,060

All leases contain nonappropriation clauses indicating that continuation of the lease is subject to funding by the legislature.

Rental expense for the year ended June 30, 2003 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$14,393,754.

### Primary Government – Business-Type Activities:

A summary of operating lease commitments to maturity are as follows (expressed in thousands):

Year ending June 30,

2004	\$ 6,232
2005	3,660
2006	1,688
2007	1,101
2008	478
2009-2012	<u>666</u>

Total \$ 13,825

Rental expense for the year ended June 30, 2003 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$8,934,567.

### Component Units:

A summary of operating lease commitments to maturity are as follows (expressed in thousands):

Year ending June 30,

2004	\$ 23
2005	23
2006	<u>11</u>

Total \$ 57

Rental expense for the year ended June 30, 2003 for all operating leases, except those with terms of a month or less that were not renewed, totaled \$22,989.

### NOTE 17 – LESSOR OPERATING LEASES

The Iowa Department of Natural Resources leases tracts of land valued at \$12,252,261 for agricultural purposes. Glenwood Resource Center leases building space valued at \$1,389,688. Iowa Public Television leases antenna and building space, no value has been assigned to the leased portions. The Iowa Department of Transportation leases land valued at \$1,108,519 for agricultural purposes. Iowa Public Employees Retirement System leases building space valued at \$1,088,854 (net of accumulated depreciation of \$106,816.) Iowa State University leases building space valued at \$172,159, equipment valued at \$167,621 (net of accumulated depreciation of \$87,118) and tracts of land that have been leased for agriculture purposes, no value has been assigned to the leased portion. The University of Northern Iowa leases buildings valued at \$776,652 (net of accumulated depreciation of \$139,961) and tracts of land valued at \$547,194 have been leased for agricultural purposes. The following is a schedule by year of minimum future rentals on operating leases as of June 30, 2003 (expressed in thousands):

Year ending June 30,

2004	\$ 1,831
2005	1,428
2006	885
2007	426
2008	218
2009-2013	719
2014-2018	298
2019-2023	169
2024-2028	76
2029-2033	<u>22</u>

Total \$ 6,072

### NOTE 18 – PENSION PLANS

#### Iowa Public Employees' Retirement System

#### Plan Description

The Iowa Public Employees' Retirement System (IPERS), within the Iowa Department of Personnel, was created in 1953 by the Iowa Legislature, to replace Iowa Old Age and Survivors' Insurance System.



# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

IPERS is a cost-sharing defined benefit multi-employer public employee retirement system. Participation in IPERS is mandatory for most state, county, and local public employees, employees of school districts, and for certain elected officials. Membership is optional for some individuals, including the members of the Iowa General Assembly. Excluded from membership are members of other retirement systems supported by Iowa public funds.

June 30, 2003

Employer members:

City	1,309
County	465
School	392
State	21
Other	<u>230</u>
Total	<u>2,417</u>

IPERS' vesting requirements are four years of service or age 55, whichever occurs first. Normal retirement age is 65, or when the member's age plus years of service equal or exceed 88. A member may also take early retirement between the ages of 55 and 65 with reduced benefits. At retirement, a member chooses one of six benefit options.

IPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to IPERS, 7401 Register Drive, P. O. Box 9117, Des Moines, IA 50306-9117, or available at [www.ipers.org](http://www.ipers.org), or by calling 515-281-0020.

### **Funding Policy**

Member and employer contribution rates are established by statute. In general, IPERS' members contribute 3.70%, and employers contribute 5.75% of the covered wage base. The contributions are remitted by participating employers. Certain members and employers engaged in law enforcement, fire safety, and protection occupations contribute at slightly higher rates as shown in the table below. Wages are covered up to the federal limit of \$200,000.

	<u>Contribution Rates as of June 30, 2003</u>		
	Employee	Employer	Total
Regular	3.70%	5.75%	9.45%
Sheriffs/Deputy Sheriffs (County)/ Airport Firefighters	5.37%	8.05%	13.42%
Protection Occupations*	6.04%	9.07%	15.11%

\* Protection Occupations: City Marshals/Police or Fire Fighters in towns under 8,000 population, State Conservation Peace Officers, State Correctional Officers, Airport Safety Officers, DOT Peace Officers, Airport Security Officers, and Fire Prevention Inspector Peace Officers.

A valuation of the liabilities and reserves of the IPERS Trust Fund is performed annually by IPERS' actuary

in accordance with Iowa Code Section 97B.4(4)(d). The Iowa statutes provide that most IPERS members shall contribute 3.70% of pay and employers shall contribute 5.75%, for a total of 9.45%. The valuation is performed to determine whether that rate will be sufficient to fund the future benefits expected to be paid by the System within the guidelines established in IPERS funding policy (maximum amortization period of 30 years). The statutory rate is first applied to fund the normal cost rate. The remaining contribution rate is used to amortize the unfunded actuarial liability as a level percentage of payroll, which in turn determines the amortization period. As a result, the remaining amortization period varies with each actuarial valuation.

The amount of actuarially determined contribution requirement was approximately \$476,684,129. The total amount of contributions made during the fiscal year ended June 30, 2003, was \$472,954,129 with \$287,523,555 coming from employers and \$185,430,574 from employees. This resulted in a 99.2% funding ratio. The difference between the actuarially required contribution and actual contributions made is due entirely to statutory contribution requirements that differ from the actuarially required contribution rate.

The State of Iowa's contributions to IPERS for the years ended June 30, 2003, 2002, and 2001, were \$58,545,880, \$57,921,132, and \$56,844,792, respectively, equal to the 100% of the statutorily required contributions for each year.

Beginning with the June 30, 1996 actuarial valuation, the annual valuation of liabilities is calculated using the entry age normal cost method. The entry age normal cost method requires the calculation of an Unfunded Actuarial Accrued Liability, \$1,866,898,949 at June 30, 2003. Based on the current Unfunded Actuarial Accrued Liability amount and amortization payment, the amortization period is infinite. Additional information is available in IPERS' separately issued report.

### **Summary of Significant Accounting Policies**

IPERS' financial statements are prepared using the accrual basis of accounting. Revenues are recognized when they are earned and become measurable. Expenses are recognized when the liability is incurred. As such, plan members contributions are recognized in the period in which the contributions are due. Employers contributions are recognized when due and the employer has made a formal commitment to provide contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

All investments are reported at fair value. The determination of fair value is generally based on published market prices and quotations from major investment brokers. Investments not having quoted

## STATE OF IOWA

### NOTES TO THE FINANCIAL STATEMENTS

market prices have been valued based on yields and maturities currently available on comparable securities of similar issue. Fair values for real estate, private equity partnerships, and direct real estate investments are based on periodic assessments or appraisals of the underlying investments. Futures contracts are valued daily with the resulting adjustment recorded as realized gains/losses arising from the daily settlement of variation margin.

The System has no investment in any specific stock or bond issues of any commercial or industrial organization, other than the U.S. government and its instrumentalities, whose market value exceeds five percent of the net assets available for benefits.

#### **Peace Officers' Retirement, Accident and Disability System**

##### ***Plan Description***

The Peace Officers' Retirement, Accident and Disability System was created under Chapter 97A of the Code of Iowa to provide retirement and other benefits for the peace officers of the Iowa Department of Public Safety. The Peace Officers' Retirement, Accident and Disability System is the administrator of a single-employer defined benefit public employee retirement system.

A member may retire with a service allowance after completing 22 years credited service and attaining the minimum service retirement age of 55. Plan benefits include: service retirement benefits, ordinary disability retirement benefits, accidental disability benefit, ordinary death benefit, and accidental death benefits.

The Peace Officers' Retirement, Accident and Disability System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Peace Officers' Retirement, Accident and Disability System, Iowa Department of Public Safety, Wallace State Office Building, Des Moines, IA 50319.

##### ***Funding Policy***

The contributions to the System are made pursuant to Chapter 97A of the Code of Iowa, and are not based upon actuarial determinations.

Member contribution rates are established by statute at 9.35%. However, the System shall increase the member's contribution rate as necessary to cover any increase in cost to the System resulting from statutory changes which are enacted by any session

of the General Assembly meeting after January 1, 1991, if the increase cannot be absorbed within the contribution rates established, but subject to a maximum employee contribution rate of 11.30%. After the employee contribution reaches 11.30%, sixty percent of the additional cost of such statutory changes shall be paid by employers and forty percent of the additional cost shall be paid by employees. This is deducted from the member's salary and remitted by the employer.

The employer is obligated by statute to contribute an amount of 17.00% of the covered payroll. Contribution provisions are established by State law and may be amended only by the State legislature. The State of Iowa has historically followed a contribution policy of appropriating funds based upon a percentage of the current salaries for which funds are appropriated.

The member contribution required and contributed was \$3,046,982, representing 9.35% of the current year covered payroll. The State contribution required by statute was \$5,540,116 and the amount actually contributed was \$5,540,116. Costs of administering the plan are financed through employer contributions and investment income.

#### **Summary of Significant Accounting Policies**

The Peace Officers' Retirement, Accident and Disability System's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period in which the contributions are due. Pension benefits and annuities are recognized when due and payable in accordance with the terms of the plan.

Investments are recorded at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

The System has no investment in any specific stock or bond issues of any commercial or industrial organization, other than the U.S. government and its instrumentalities, whose market value exceeds five percent of the net assets held in trust for pension benefits.

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### Annual Pension Cost and Net Pension Obligation

The State's annual pension cost and net pension obligation to the Peace Officers' Retirement, Accident and Disability System for the current year were as follows:

Annual required contribution	\$ 7,883,879
Interest on net pension obligation	(1,399,643)
Adjustment to annual required contribution	<u>1,346,805</u>
Annual pension cost	7,831,041
Contributions made	<u>5,540,116</u>
Increase (decrease) in net pension obligation	2,290,925
(Assets in excess of) net pension obligation beginning of year	<u>(17,495,537)</u>
(Assets in excess of ) net pension obligation end of year	<u><u>\$ (15,204,612)</u></u>

For calculation of the net pension obligation, the actuary has set the transition date as July 1, 1995. The end of year net pension obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the System's actual contributions for fiscal years 1988 through 2003.

The annual required contribution for the current year was determined as part of the July 1, 2001, actuarial valuation using the aggregate actuarial cost method. This method does not identify or separately amortize unfunded actuarial liabilities. The actuarial assumptions included (a) 8.00% investment rate of return, (b) projected salary increases of 10% for the first year, 5% for each of the next 4 years and 5.5% thereafter, (c) an inflation rate of 4.00%, and (d) post retirement benefit increases are based on expected payroll growth and provision of the law. The actuarial value of assets was determined using a smoothing method. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2003 was 18 years.

Three-year trend information:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	(Assets in Excess) of Net Pension Obligation
2001	4,199,585	126.00%	(17,327,511)
2002	5,298,340	103.17%	(17,495,537)
2003	7,831,041	70.75%	(15,204,612)

### Judicial Retirement System

#### Plan Description

The Judicial Retirement System is the administrator of a single-employer defined benefit public employee retirement system.

The Judicial Retirement System was established to provide pension benefits to Judges serving on the Supreme Court, District Courts and the Court of Appeals.

Pursuant to Chapter 602 of the Code of Iowa, a member who has had a total of at least six years of service as a judge of one or more of the above courts and is at least sixty-five years of age or who has served twenty-five years of consecutive service as a judge of one or more of the above courts shall qualify for an annuity. The annual annuity of a judge under this system is an amount equal to three percent of the judge's average annual basic salary for the judge's highest three years as a judge multiplied by the judge's years of service, or, for a member who meets the definition of a senior judge under Chapter 602.9202 of the Code of Iowa, three percent of the basic senior judge salary, multiplied by the judge's years of service, limited to a specified percentage of the highest basic annual salary or basic senior judge salary, as applicable, which the judge is receiving or had received as of the time of the judge became separated from service. The specified percentage is as follows: (1) fifty percent for judges who retired prior to July 1, 1998; (2) fifty-two percent for judges who retire and receive an annuity on or after July 1, 1998 but before July 1, 2000; (3) fifty-six percent for judges who retire and receive an annuity on or after July 1, 2000 but before July 1, 2001; and (4) sixty percent for judges who retire and receive an annuity on or after July 1, 2001. Any member who has served as a judge for a total of six years or more and deemed permanently incapacitated, mentally or physically, to perform his/her duties shall be entitled to an annuity that would be the same as computed under a retirement annuity.

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

The Judicial Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Judicial Retirement System, Iowa Judicial Branch, 1111 East Court Avenue, Des Moines, IA 50319.

### **Funding Policy**

The contributions to the Iowa Judicial Retirement System are made pursuant to Section 602.9104 of the Code of Iowa, and are not based upon actuarial determinations.

The member contribution required and contributed was \$1,015,079, representing 5.00% of the current year covered payroll. The State contribution required by statute and the amount contributed was \$2,039,664. The State share is to be based on 9.90% of the current year covered payroll. Costs of administering the plan are financed through State appropriation, member contributions and investment income.

### **Summary of Significant Accounting Policies**

The Iowa Judicial Retirement System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. System contributions are recognized when due and the System has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Investments that do not have an established market are reported at estimated fair value.

Investments in governmental bonds and treasury notes constitute approximately 3.15% of net assets held in trust for pension benefits. The System has no investments in the stocks or bonds of any commercial or industrial organization where market value exceeds 5.00% or more of the net assets held in trust for pension benefits.

### **Annual Pension Cost and Net Pension Obligation**

The State's annual pension cost and net pension obligation to the Iowa Judicial Retirement System for the current year were as follows:

Annual required contribution	\$ 4,024,203
Interest on net pension obligation	128,201
Adjustment to annual required contribution	<u>(127,339)</u>
Annual pension cost	4,025,065
Contributions made	<u>2,039,664</u>
Increase (decrease) in net pension obligation	1,985,401
(Assets in excess of) net pension obligation beginning of year	<u>(382,886)</u>
Net pension obligation end of year	<u><u>\$ 1,602,515</u></u>

For calculation of the net pension obligation, the actuary has set the transition date as July 1, 1995. The net pension obligation was calculated by the actuary as the cumulative difference between the System's annual required contributions and the System's actual contributions for fiscal years 1988 through 2003.

The annual required contribution for the current year was determined as part of the July 1, 2002, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 8.00% investment rate of return and (b) projected salary and inflationary increases of 5.00% per year. The assumptions included post retirement benefit increases, in accordance with the law. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized using a level dollar amortization method on an open basis. The remaining amortization period at June 30, 2003, was 30 years.

Three-year trend information:

Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	(Assets in Excess) of Net Pension Obligation
2001	3,208,886	140.22%	(1,075,242)
2002	3,731,554	81.45%	(382,886)
2003	4,025,065	50.67%	1,602,515

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### Teachers Insurance and Annuity Association Retirement Program

The Universities, Board of Regents, the Iowa Braille and Sight Saving School, and the Iowa School for the Deaf contribute to the Teachers Insurance and Annuity Association (TIAA) retirement program. The above, by contributing to TIAA, participate in a defined contribution retirement plan.

A defined contribution retirement plan provides retirement benefits in return for services rendered, provides individual annuities for each plan participant, and specifies how contributions to an individual's annuity are to be determined instead of specifying the amount of benefits the participant is to receive. Under a defined contribution retirement plan, the benefits a participant will receive depend solely on the amount contributed to the participant's annuity, and the returns earned on investments of those contributions. As required by the Iowa State Board of Regent's policy, all eligible employees must participate in a retirement plan from the date they are employed. Contributions made by both employer

and employee vest immediately. As specified by the contract agreement with TIAA, each employee through the fifth year of employment contributes 3.33% of the first \$4,800 of earnings and 5.00% on the balance of earnings. The employer through the fifth year of employment, contributes 6.67% of the first \$4,800 of earnings and 10.00% on earnings above the \$4,800. Upon completion of five years of service, the participant contributes 5.00% and the employer 10.00% on all earnings. During fiscal year 2003, the employers' contributions amounted to \$106,551,640. Employees' contributions amounted to \$53,500,944.

No retirement plan provisions changed during the year that affected the Institutions' or employees' required contributions.

## NOTE 19 – RELATED ORGANIZATIONS

### Business-type activities – Universities

Iowa State University, the University of Iowa and the University of Northern Iowa have related organizations whose purpose is to receive donations and other funds for student grants and scholarships, support of intercollegiate athletics, and educational and general institution support. Detailed financial data is available in the related organizations' financial statements, available from the Universities. The following summarized financial data is for the year ended June 30, 2003 (expressed in thousands):

	Iowa State <u>University</u>	University <u>of Iowa</u>	University of <u>Northern Iowa</u>
Total Assets	\$ 414,085	\$ 707,370	\$ 69,450
Total Liabilities	55,403	107,900	3,901
Total Equity	358,682	599,470	65,549
Due From The Universities	15	63	-
Due To The Universities	8,196	19,717	-
Total Revenues	71,430	81,606	8,710
Total Expenditures	67,769	90,863	7,364
Revenues From The Universities	2,017	757	-
Revenues To The Universities	53,802	72,589	2,740

# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 20 – BEGINNING BALANCE ADJUSTMENTS

During fiscal year 2003, the State reclassified the Insurance Trust Fund and the SPOC Insurance Trust Fund from Private Purpose Trust Funds to Pension Trust Funds. The reclassification resulted in the following changes to the beginning net assets of the respective fund types (expressed in thousands):

	Private Purpose Trust	Pension Trust
June 30, 2002		
As previously reported	\$ 271,297	\$ 15,161,501
Reclassification	<u>(3,060)</u>	<u>3,060</u>
Balances restated	<u>\$ 268,237</u>	<u>\$ 15,164,561</u>

In addition, the University Funds understated their early retirement benefit liability by \$9,439,000, overstated accumulated depreciation by \$19,730,000 and did not include the Deposits with Trustee amount of \$46,393,000 as cash and cash equivalents. These errors resulted in an adjustment to the University Funds beginning balances (expressed in thousands):

	Net Assets	Cash and Cash Equivalents
June 30, 2002		
As previously reported	\$ 2,380,827	\$ 363,979
Adjustments	<u>10,291</u>	<u>46,393</u>
Balance restated	<u>\$ 2,391,118</u>	<u>\$ 410,372</u>

### NOTE 21 – OTHER POST EMPLOYMENT BENEFITS

On November 8, 2001, the Legislature passed an Early Retirement Termination Program during the special legislative session. The program requires the sum of the number of years of credited service (service under the Iowa Public Employee's Retirement System or the Peace Officers' Retirement, Accident and Disability System) and age in years as of December 31, 2003, equals or exceed seventy-five. Employees were required to sign up before January 31, 2003 and leave State employment on or before February 1, 2002. Participants may not accept permanent part-time or permanent full-time employment with the State, other than as an elected official, after termination.

The Early Retirement Incentive is calculated as the total dollar value of accrued vacation and sick leave balances at the time of termination. However, the sick leave cannot exceed 2080 hours (the amount of annual salary). The vacation and sick leave will be paid out in five installments, with 10 percent paid with the last regular payroll warrant, 20 percent paid each August in 2002, 2003, and 2004, and the remaining 30 percent paid to the employee or their beneficiary in August 2005.

On May 28, 2002, the Legislature passed a Sick Leave and Vacation Incentive Program Extension during the special legislative session held on that day. The program requires that sum of the number of years of credited service (service under the Iowa Public Employee's Retirement System or the Peace Officers' Retirement, Accident and Disability System) and age in years as of December 31, 2003, to be equal to or exceed seventy-five. Eligible employees were required to sign up on or before August 14, 2002, and leave State employment between the dates of July 8, 2002 and August 15, 2002.

Participants may not accept permanent part-time or permanent full-time employment with the State, other than as an elected official after termination.

The Sick Leave and Vacation Incentive is calculated as the total dollar value of accrued vacation and sick leave balances at the time of termination. However, the sick leave cannot exceed 2080 hours (the amount of regular annual salary). The vacation and sick leave will be paid out in five installments, with 30 percent of the total cash value paid with the last regular payroll warrant in 2002, 20 percent paid each August in 2003, 2004, and 2005, and the remaining 10 percent paid to the employee or their beneficiary in August 2006.

All incentives are financed on a pay-as-you-go basis by the Department from which the employee retired. Early retirement costs for fiscal 2003 totaled \$6,617,527 for 747 participants.

The Board of Regents approved an Early Retirement Incentive Program (ERIP) in June 1986, with modifications July 1990 and July 1992; and in July 2001 the Board of Regents approved discontinuation of the program upon its expiration on June 30, 2002. The Board of Regents has authorized each institutional head to exercise discretion as to whether employees who are qualified at June 30, 2003 may have two years after expiration of the program to request participation.

## STATE OF IOWA

### NOTES TO THE FINANCIAL STATEMENTS

To be eligible for ERIP, an employee must be 57 to 64 years of age with 15 or more years of service. The employee's participation must be approved by the employee's department head and the appropriate administrative officers.

All incentive payments are financed on a pay-as-you-go basis, except at the University of Northern Iowa. At the University of Northern Iowa, the policy requires departments to fully fund the ERIP liability upon signing new ERIP contracts, and the policy requires previously executed contracts be funded by June 30, 2003. The funded contributions during the fiscal year ended June 30, 2003 were \$1,015,721.

An employee approved for participation in the program will receive the following incentives until age 65, unless otherwise specified:

- 1) Health & Dental Insurance - The employer's contributions are made until the employee is eligible for Medicare coverage.
- 2) Group Life Insurance - The employer provides a paid-up life insurance policy which varies in amounts between \$2,000 and \$4,000.
- 3) TIAA/CREF Contributions - The employer's and employee's contributions are made for up to three (3) years; employer's contributions are made up to an additional two (2) years; and employer's contributions are payable for a maximum of five (5) years or until the employee is eligible for full Social Security benefits, whichever occurs first.
- 4) IPERS Contributions - The employer's and employee's contributions are made for up to three (3) years; employer's contributions may be made up to an additional two (2) years; and contributions are payable for a maximum of five (5) years or until the employee is eligible for full Social Security benefits, whichever occurs first.

The employee may elect, prior to approval of participation in the program, to accept the present value of all or part of the incentives as a lump sum payment on the beginning date of participation in the program. The rate of interest used to calculate the present value is established annually by the board. The rate used for this fiscal year was 1.90%.

The Board of Regents Institutions' contributions for the fiscal year ended June 30, 2003, amounted to \$10,667,015 for 1,132 participants.

The State Police Officers Council (SPOC) Collective Bargaining Agreement, provides upon retirement, including disability retirement, credit for all unused sick leave as follows:

Accumulated, unused sick leave in both the active and banked sick leave accounts shall be converted at current value and credited to the employee's account for the purpose of paying the cost of the monthly premiums of a health insurance and/or life insurance policy.

Upon written authority from or upon the death of a retired employee, or upon the death of an active employee, the spouse or the surviving spouse shall be entitled to the value of the sick leave bank in both the active and banked sick leave accounts as converted in the previous paragraph for the purpose of paying the cost of monthly premiums of the health insurance and/or life insurance policy for the employee's spouse or dependents.

If the carrier of either the health or life insurance policy is not a current contracted carrier with the State of Iowa, or the council or any of its sub organizations, the employee or spouse shall be eligible for reimbursement of a premium payment to that carrier upon submission of proof of payment. If there is dissolution of marriage or divorce, it is the employee's responsibility to withdraw their authority.

The benefits are funded on a pay-as-you go basis for the Department of Public Safety retirees and fully funded for Department of Natural Resources retirees.

For the year ended June 30, 2003, 164 SPOC retirees received benefits totaling \$847,000.

### NOTE 22 - RISK MANAGEMENT

#### *INSURANCE/TRANSFER OF RISK*

State employee benefits for health, dental, long-term disability and life insurance coverage are fully insured through commercial insurers. The State also insures with outside parties for certain liabilities. The State assumes liability for any deductibles and claims in excess of coverage limitations. Iowa State University assumes responsibility for aircraft liability claims in excess of \$11.0 million, and Workforce Development assumes fire liability on buildings and contents in excess of \$16.7 million.

## STATE OF IOWA

### NOTES TO THE FINANCIAL STATEMENTS

The University of Northern Iowa assumes liability in excess of \$250.0 million for the Residence System Buildings, Maucker Union, General Fund Buildings, Early Childhood Center and boiler and machinery per event. Each building has individual limits of coverage and a \$2.0 million deductible for earthquake and flood: Residence Halls \$253.4 million, Residence Apartments \$61.0 million, Maucker Union \$18.9 million, General Buildings \$250.0 million, and Early Childhood Center \$3.0 million. The University also assumes liability for physical damage to the UNI-Dome buildings for the first \$150,000 and in excess of \$43.5 million and medical liability at the Laboratory School in excess of \$5.0 million.

The University of Iowa assumes liability for damage to buildings and contents for the first \$2.0 million and in excess of \$500.0 million per event, pharmacy products liability for the first \$10,000 and in excess of \$7.0 million, student interns professional liability in excess of \$3.0 million, losses at the Museum of Art in excess of \$100.0 million, criminal fidelity liability for the first \$100,000 and in excess of \$10.0 million; and construction job site liability for the first \$250,000 and in excess of \$50.0 million.

Iowa State University assumes liability for damage to buildings and contents in excess of \$2,242.6 million, damage to boilers and machinery in excess of \$287.9 million, damage to electronic data processing, telecommunications equipment in excess of \$29.6 million and business interruption in excess of \$27.5 million.

Glenwood Resource Center assumes liability for volunteers' accident and personal liability in excess of \$1.0 million per occurrence and \$3.0 million annually. The Iowa Braille and Sight Saving School assumes liability for the first \$1.0 million and in excess of \$28.9 million for catastrophic losses.

The Second, Third, Fourth, Fifth, and Sixth Judicial Districts assume liability for physical damage to buildings and contents in excess of \$3.7 million, \$3.2 million, \$3.3 million, \$13.0 million and \$8.7 million, respectively. The Fifth Judicial District assumes liability for boiler equipment breakdown in excess of \$4.5 million. The First Judicial District assumes liability in excess of \$3.5 million blanket coverage for boilers.

The State maintains an employee fidelity bond where the first \$100,000 in losses and any losses exceeding \$2.0 million becomes the responsibility of the State. Iowa State University maintains an additional policy and assumes liability in excess of \$4.0 million.

There were no settlements in excess of coverage for the past three fiscal years.

The University of Northern Iowa and University of Iowa were unable to renew existing policies covering buildings, contents and business interruption and replaced that coverage with policies that cover per

occurrence limits of \$250 million and \$500 million, respectively. The University of Iowa was also unable to renew their \$20 million medical malpractice insurance in January 2003 and it self-insuring that risk.

#### *SELF-INSURANCE/RETENTION OF RISK*

It is the policy of the State not to purchase commercial insurance, except as detailed above, for the risks of losses to which it is exposed. Instead, State management believes that it is more economical to manage its risks internally and set aside assets for claim settlement in its internal service funds or to pay claims from the General Fund.

Specific claim adjustment expenditures/expenses and estimated recoveries on unsettled claims are included in the determination of claims liability. Other allocated or unallocated claim adjustment expenditures/expenses are not included.

The State is self-insured for various risks of loss related to work injuries of its employees. The Workers' Compensation Fund, an internal service fund, services workers' compensation claims. The liability for unpaid claims is estimated based on the average cost per claim-type determined from an actuarial review. Changes in the balances for estimated claims liabilities in fiscal years 2002 and 2003 were (expressed in thousands):

	Balances At Beginning Of Fiscal Year	Current Year Claims And Changes In Estimates	Claim Payments	Balances At End Of Fiscal Year
FY 02	32,497	14,509	14,938	32,068
FY 03	32,068	36,645	15,483	53,230

The State is self-insured for various risks of loss related to its motor vehicle fleet. The Vehicle Dispatcher Self-Insurance Fund, an internal service fund, services liability and property damage claims. The liability for unpaid claims is estimated based on historical experience and the application of an industry standard of forty percent for IBNR claims. Changes in the balances for estimated claims liabilities in fiscal years 2002 and 2003 were (expressed in thousands):

	Balances At Beginning Of Fiscal Year	Current Year Claims And Changes In Estimates	Claim Payments	Balances At End Of Fiscal Year
FY 02	972	331	236	1,067
FY 03	1,067	(430)	128	509

The State is self-insured for various risks of loss related to the operation of the Board of Regents institutions' motor vehicle fleets. The Regent's Motor Vehicle Liability Self-Insurance Fund, an internal service fund, services liability and property damage claims. The liability for unpaid claims is estimated based on statistical techniques that reflect recent settlements, similar claim history, and other economic and social factors. Changes in the



# STATE OF IOWA

## NOTES TO THE FINANCIAL STATEMENTS

balances for estimated claims liabilities in fiscal years 2002 and 2003 were (expressed in thousands):

	Current Year			
	Balances At	Claims	Balances At	
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 02	1,100	350	582	868
FY 03	868	858	781	945

The State is self-insured for risks of loss related to property damage and torts. All claims must be filed with the State Appeal Board which has the authority to approve or reject claims. Claims allowed in an amount greater than five thousand dollars require the unanimous approval of all the members of the Board, the Attorney General, and the District Court of the State of Iowa for Polk County. The liability for unpaid claims is estimated based on historical experience and analysis. Changes in the balances for estimated claims liabilities in fiscal years 2002 and 2003 were (expressed in thousands):

	Current Year			
	Balances At	Claims	Balances At	
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 02	11,500	6,108	6,108	11,500
FY 03	11,500	6,868	6,868	11,500

The Universities retain risk liability for medical faculty malpractice; medical, dental, unemployment, and workers' compensation coverage for some employees; and various property damage not covered as described above. The estimates of claim liabilities for faculty medical malpractice, and employee medical, dental, unemployment, and workers' compensation are based on actuarial analysis. The estimates of the claim liability for various property damage is based on historical analysis. Changes in the balances for estimated claims liabilities in fiscal years 2002 and 2003 were (expressed in thousands):

	Current Year			
	Balances At	Claims	Balances At	
	Beginning	And Changes	Claim	End Of
	Of Fiscal Year	In Estimates	Payments	Fiscal Year
FY 02	16,765	109,595	107,852	18,508
FY 03	18,508	102,928	101,664	19,772

### NOTE 23 – LITIGATION, CONTINGENCIES, AND COMMITMENTS

The *State Appeal Board* has the authority to approve or reject general claims under ten years covering the following: Outdated warrants; outdated sales and use tax refunds; license refunds; additional agricultural land tax credits; outdated invoices; fuel and gas tax refunds; outdated homestead and veterans' exemptions; outdated funeral service claims; tractor fees; registration permits; outdated bills for merchandise; services furnished to the state;

claims by any county or county official relating to the personal property tax credit; and refunds of fees collected by the state. At June 30, 2003, there was \$1.1 million in such claims filed with the Appeal Board.

The Iowa *Department of Revenue* has pending litigation regarding income tax cases. The cases *could* possibly result in refunds estimated at \$1.1 million.

The Iowa *Department of Transportation* has estimated the State's share of contractual obligations for construction contracts as \$192.7 million at June 30, 2003.

The *University of Iowa* has outstanding construction contract commitments of \$125.7 million at June 30, 2003.

*Iowa State University* has outstanding construction contract commitments of \$41.5 million at June 30, 2003.

The *Department of Natural Resources* has outstanding construction contract commitments of \$9.4 million at June 30, 2003.

The *University of Northern Iowa* has outstanding construction contract commitments of \$19.2 million at June 30, 2003.

The *Department of General Services* has outstanding construction contract commitments of \$33.8 million at June 30, 2003.

The Iowa *Finance Authority* has signed loan agreements with municipalities and water systems totaling \$68.3 million as of June 30, 2003.

The State has pending litigation involving wage claims under the federal Fair Labor Standards Act for employees of the department of *Natural Resources*. Although there is a reasonable possibility that a loss will be incurred, the amount of the loss can not be reasonably estimated.

### NOTE 24 – REVENUE ANTICIPATION NOTES

Pursuant to the Code of Iowa, Section 12.26, the State of Iowa issued Primary Road Fund Revenue Anticipation Notes (RANS). The notes were necessary to fund the anticipated cash flow deficits experienced by the Primary Road Fund and for interim financing of certain highway projects. The RANS were issued on October 10, 2002, with an interest rate of 3.0%, and the notes and related interest were repaid on June 30, 2003. The following is a schedule of RANS activity for the year ended June 30, 2003 (expressed in thousands):

	Beginning		Ending
	Balance	Issued Redeemed	Balance
Revenue			
Anticipation Notes	\$-	\$ 99,380 \$ 99,380	\$ -

## STATE OF IOWA

### NOTES TO THE FINANCIAL STATEMENTS

#### NOTE 25 – SUBSEQUENT EVENT

In July of 2003, the Board of Regents approved the terms of a capital lease with the University of Iowa Facilities Corporation (UIFC) that matched the terms of an \$11,325,000 bond issue by UIFC. The proceeds of said bond issue are to be used for a portion of the construction costs of the Pomerantz Center.

In October of 2003, the Board of Regents approved the sale of \$25.0 million in Dormitory Revenue Bonds to be used for improvements to existing residence halls and related facilities at the University of Iowa.

In October of 2003, the Board of Regents approved the issuance of up to \$14.5 million in Telecommunications Revenue Bonds. The proceeds will be used to call \$9.9 million in existing revenue bonds and to purchase \$4.1 million in telecommunications switching equipment at the University of Iowa.

Subsequent to June 30, 2003, the Board of Regents entered into an agreement with the University of Iowa, the Carver College of Medicine and the Faculty Practice Plan for the creation of Iowa Medical Mutual Insurance Company (IMMIC), a captive insurance company. IMMIC would provide medical malpractice insurance to the Faculty Practice Plan under the terms of the agreement. To establish the required reserves for IMMIC, the University of Iowa will transfer \$20.0 million in investments to IMMIC in return for \$20.0 million note receivable from IMMIC. The interest income on the note will match the return of the investment of the reserves by IMMIC.

Subsequent to June 30, 2003, the Board of Regents authorized the sale of Academic Building Revenue Refunding Bonds, Series I.S.U. 2003 for \$7,790,000 to be issued on November 1, 2003. These bonds will bear interest at varying rates between 3.0% and 4.45% and will mature in varying amounts from July 1, 2004 through July 1, 2018. The proceeds of these notes will be used to refund in advance of maturity the 2004 maturity of the Board's \$7,000,000 Academic Building Revenue Notes, Series I.S.U. 2002, to fund a debt service reserve, and to pay for costs of issuance. These bonds will be payable only from the gross student fees and charges levied against students attending Iowa State University.

Also subsequent to June 30, 2003, the Board of Regents authorized the sale of Regulated Materials Facility Revenue Bonds, Series I.S.U. 2003 for \$6,750,000 to be issued on November 1, 2003. These bonds will bear interest at varying rates between 3.0% and 4.55% and will mature in varying amounts from July 1, 2005 through July 1, 2019. The proceeds from the sale of these bonds will be used to construct, furnish and equip a Regulated Materials Facility on the campus of Iowa State University, to fund a debt service reserve fund, and to pay the costs of issuance. These bonds will be payable only from the net reserves of the Regulated Materials Facility System or other system income.

Also, subsequent to June 30, 2003, the Board of Regents authorized the sale of Utility System Revenue Bonds, Series I.S.U. 2003 for \$13,280,000 to be issued December 1, 2003. These notes will bear interest at rates between 2.0% and 4.75% and will mature in varying amounts from November 1, 2005 through November 1, 2024. The proceeds of these bonds will be used to equip and improve the Utility System of Iowa State University, to fund debt service reserve, and to pay the costs of issuance.

These bonds will be payable only from the net revenues of the Utility System and any proceeds of Utility System students fees.

In July of 2003, the Board of Regents called outstanding Academic Building Revenue Bonds, Series 1993 to take advantage of lower interest rates. The called bonds were replaced with Academic Building Revenue Refunding Bonds, Series U.N.I. 2003A of \$4,225,000. The transaction resulted in a savings of \$322,300 in principal and interest payments.

On October 9, 2003, the State of Iowa issued Primary Road Fund Revenue Anticipation Notes of \$73,430,000 at an interest rate of 2.00%, priced to yield .99%. The notes are being issued for the purpose of funding the anticipated cash flow deficits experienced by the Primary Road Fund, and for interim financing of certain highway projects.

The State of Iowa is in negotiations to issue Tax and Revenue Anticipation Notes (TRANS), estimated to range from \$500 to \$600 million. The notes will be repaid by June 30, 2004.

**REQUIRED  
SUPPLEMENTARY  
INFORMATION**



# STATE OF IOWA

## Budgetary Comparison Schedule Required Supplementary Information

June 30, 2003  
(Expressed in Thousands)

GENERAL FUND				
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
<b>APPROPRIATED REVENUE:</b>				
<b>SPECIAL TAXES:</b>				
Personal Income Tax	\$ 2,369,000	\$ 2,419,900	\$ 2,416,955	\$ (2,945)
Sales Tax	1,460,100	1,462,300	1,434,301	(27,999)
Use Tax	237,800	246,100	251,940	5,840
Corporation Income Tax	199,700	223,400	221,235	(2,165)
Inheritance Tax	88,800	92,300	85,124	(7,176)
Insurance Premium Tax	145,200	152,900	140,939	(11,961)
Cigarette Tax	87,200	87,000	88,105	1,105
Tobacco Tax	7,200	7,300	7,653	353
Beer & Liquor Tax	13,600	14,000	13,953	(47)
Franchise Tax	28,600	32,900	35,253	2,353
Miscellaneous Tax	1,300	1,500	1,124	(376)
<b>TOTAL SPECIAL TAXES</b>	<b>4,638,500</b>	<b>4,739,600</b>	<b>4,696,582</b>	<b>(43,018)</b>
<b>REIMBURSEMENTS &amp; FEES:</b>				
Institutional Reimbursements	14,400	14,100	12,941	(1,159)
Liquor Transfers	48,000	49,000	49,000	-
Interest	12,200	18,400	12,992	(5,408)
Fees	64,900	64,000	69,683	5,683
Judicial Revenue	54,100	56,900	55,360	(1,540)
Miscellaneous Receipts	36,600	37,800	39,803	2,003
Racing & Gaming Receipts	60,000	60,000	60,000	-
<b>TOTAL RECEIPTS</b>	<b>4,928,700</b>	<b>5,039,800</b>	<b>4,996,361</b>	<b>(43,439)</b>
Transfers	134,000	129,700	134,535	4,835
<b>TOTAL APPROPRIATED REVENUE</b>	<b>5,062,700</b>	<b>5,169,500</b>	<b>5,130,896</b>	<b>(38,604)</b>
<b>RECEIPTS CREDITED TO APPROPRIATIONS:</b>				
Individual Income Tax-Prior Year	5	5	5	-
Sales Tax Monthly	3	3	3	-
Multi Suspense	11,092	3,854	3,643	(211)
Federal Support	1,882,195	1,889,558	2,145,212	255,654
Local Governments	100,673	100,013	113,400	13,387
Other States	1	1	-	(1)
Internal Service Transfers	433,207	442,861	395,291	(47,570)
Internal Service Reimbursements	16,026	18,561	19,505	944
Salary Adjustment Distribution	41,100	41,100	41,100	-
Interest	-	3	6	3
Fees, Licenses, & Permits	8,694	8,811	9,348	537
Refunds & Reimbursements	122,772	130,402	381,504	251,102
Sale of Equipment & Salvage	8	8	10	2
Rents & Leases	2,581	2,641	2,122	(519)
Agricultural Sales	-	-	4	4
Other Sales & Services	2,001	2,012	4,086	2,074
Unearned Receipts	2,505	2,713	63	(2,650)
Other	72,433	72,569	71,794	(775)
<b>TOTAL APPROPRIATED RECEIPTS</b>	<b>2,695,296</b>	<b>2,715,115</b>	<b>3,187,096</b>	<b>471,981</b>
<b>TOTAL ALL REVENUE</b>	<b>7,757,996</b>	<b>7,884,615</b>	<b>8,317,992</b>	<b>433,377</b>
<b>REFUNDS OF TAXES COLLECTED</b>	<b>(606,000)</b>	<b>(649,400)</b>	<b>(647,325)</b>	<b>2,075</b>
<b>TOTAL REVENUES AVAILABLE</b>	<b>7,151,996</b>	<b>7,235,215</b>	<b>7,670,667</b>	<b>435,452</b>

**STATE OF IOWA**

**MAJOR SPECIAL REVENUE FUND  
TOBACCO TAX-EXEMPT BOND PROCEEDS**

[illegible]

(continued on next page)

# STATE OF IOWA

## Budgetary Comparison Schedule Required Supplementary Information

June 30, 2003  
(Expressed in Thousands)

	GENERAL FUND			
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
<b>EXPENDITURES:</b>				
Administration & Regulation	\$ 425,104	429,321	431,903	(2,582)
Agriculture & Natural Resources	113,056	114,040	108,291	5,749
Economic Development	31,717	34,388	31,770	2,618
Education	2,918,425	2,926,022	2,926,912	(890)
Health & Human Rights	244,199	247,913	235,466	12,447
Human Services	2,886,085	2,950,604	3,433,236	(482,632)
Justice	511,525	516,736	518,229	(1,493)
Oversight	3,959	3,959	3,970	(11)
Transportation	20,942	15,392	23,724	(8,332)
<b>TOTAL EXPENDITURES</b>	<b>7,155,012</b>	<b>7,238,375</b>	<b>7,713,501</b>	<b>(475,126)</b>
Transfers	-	-	-	-
<b>TOTAL EXPENDITURES AND TRANSFERS</b>	<b>7,155,012</b>	<b>7,238,375</b>	<b>7,713,501</b>	<b>(475,126)</b>
<b>REVENUES AVAILABLE OVER (UNDER) EXPENDITURES AND TRANSFERS</b>	<b>(3,016)</b>	<b>(3,160)</b>	<b>(42,834)</b>	<b>39,674</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Balances Credited To Appropriations	11,205	5,127	9,099	3,972
Unexpended Appropriations	(7,801)	(521)	(12,093)	(11,572)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>3,404</b>	<b>4,606</b>	<b>(2,994)</b>	<b>(7,600)</b>
<b>REVENUES AVAILABLE OVER (UNDER) EXPENDITURES &amp; OTHER ITEMS</b>	<b>388</b>	<b>1,446</b>	<b>(45,828)</b>	<b>(47,274)</b>
<b>BEGINNING FUND BALANCE (BUDGETARY)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>ENDING FUND BALANCE (BUDGETARY)</b>	<b>\$ 388</b>	<b>\$ 1,446</b>	<b>(45,828)</b>	<b>\$ (47,274)</b>

(continued)

# STATE OF IOWA

## MAJOR SPECIAL REVENUE FUND TOBACCO TAX-EXEMPT BOND PROCEEDS

ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	FINAL TO ACTUAL
\$ 97,437	85,964	74,022	11,942
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
<u>97,437</u>	<u>85,964</u>	<u>74,022</u>	<u>11,942</u>
132,233	122,129	83,108	39,021
<u>229,670</u>	<u>208,093</u>	<u>157,130</u>	<u>50,963</u>
<u>(208,003)</u>	<u>(186,088)</u>	<u>(140,685)</u>	<u>45,403</u>
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
(208,003)	(186,088)	(140,685)	45,403
<u>477,721</u>	<u>477,721</u>	<u>477,721</u>	<u>-</u>
<u>\$ 269,718</u>	<u>\$ 291,633</u>	<u>337,036</u>	<u>\$ 45,403</u>

# STATE OF IOWA

## Budgetary Comparison Schedule - Budget to GAAP Reconciliation General Fund and Major Special Revenue Fund Required Supplementary Information

June 30, 2003  
(Expressed in Thousands)

	GENERAL FUND	MAJOR SPECIAL REVENUE FUND TOBACCO TAX-EXEMPT BOND PROCEEDS
Fund Balance - Budgetary/Legal	\$ (45,828)	\$ 337,036
Basis Of Accounting Differences:		
Balance Sheet Accounts:		
Accounts Receivable	158,491	1,665
Loans Receivable	6,711	-
Due From Other Funds	5	-
Food Stamp Inventory	21,057	-
Prepaid Expenditures	5,457	-
Accounts Payable & Accruals	(62,792)	(19,945)
Due To Other Funds	(66,252)	-
Deferred Revenue	(131,471)	-
Reserved Encumbrances	12,093	-
Timing Differences:		
Petty Cash & Inventory Expensed In Budgetary Accounting	22,393	7,230
Perspective Differences	<u>1,739,019</u>	<u>-</u>
Total Fund Balance - GAAP Basis	1,658,883	325,986
Less: Reserved Fund Balance - GAAP Basis	<u>1,478,103</u>	<u>325,986</u>
Fund Balance Unreserved - GAAP Basis	<u>\$ 180,780</u>	<u>\$ -</u>



## **STATE OF IOWA**

### **Required Supplementary Information**

## **Notes to Required Supplementary Information – Budgetary Reporting**

### **Expenditures in Excess of Revenues**

Through June 30, 2003, General Fund cash receipts were slightly higher than the REC estimate, by \$12.8 million. However, actual accrued General Fund revenues and reversions of unspent General Fund appropriations were lower than projected, and expenditures against standing General Fund appropriations were higher than projected. The largest impact was accrued revenues, which were \$50.7 million under the REC estimate. Reversions of unspent General Fund appropriations were \$7.3 million under the estimate, and standing appropriations exceeded the estimate by \$3.6 million.

As a result, the General Fund ended fiscal year 2003 with authorized expenditures exceeding actual revenues by \$45.8 million. State statutes provide the Governor a mechanism to prevent this deficit in the General Fund. However, due to the potential negative impact on the fiscal year 2004 General Fund budget, at this time the Governor has determined that this mechanism will not be implemented. Instead, the Governor has written to Legislative leaders recommending that the Legislature transfer \$45.8 million from the Cash Reserve Fund to the General Fund to remedy the shortfall and expressing his belief that this issue should be the first priority when the Legislature convenes in regular session in January 2004.

### **Budgetary Expenditures in Excess of Appropriations**

Actual expenditures exceeded budgeted expenditures as a result of the receipt and legal expenditure of federal and other non-state funds which had been received for restricted purposes. In the General Fund this occurred in the Department of Human Services for Medical Assistance, and due to standing unlimited appropriations and increased federal funds for Public Transit Assistance within the Department of Transportation, and as a result of legal expenditure over allocated reversions within the Department of Education, Department of Corrections, Information Technology Department, and the Iowa Telecommunications and Technology Commission operating appropriations.

### **Budgetary Presentation**

The budget encompasses the General Fund of the State and some Special Revenue Funds, (Tobacco Tax-Exempt Bond Proceeds, Healthy Iowan's Trust Fund, Endowment For Iowa's Health Account, Hospital Trust Fund, Technology Program, Workforce Development Withholding, Local Housing Assistance, Pooled Technology Program, Land Recycling Fund, Forestry Management Enhancement Fund, Environment First, Gambling Treatment Program, Inspection and Appeals Use Tax Clearing, Underground Storage Tank Unassigned Revenue, Resources Enhancement and Protection, Fish and Game Fund, Conservation Administration Fund, Guaranteed Student Loan Administration, School Infrastructure Fund, Real Estate Education, Special Contingency Fund, Administrative Contribution Surcharge, Unclaimed Winnings, Water Quality Protection, and Primary Road Fund). The General Fund and the Major Special Revenue Fund, Tobacco Tax-Exempt Bond Proceeds are displayed in the Required Supplementary Information Budgetary Comparison Schedule. The Nonmajor Special Revenue Funds are displayed with the combining financial Statements and Schedules for nonmajor funds. Capital Project Funds are budgeted on a project-length basis. The budget is prepared on a modified accrual basis of accounting for both revenues and expenditures.

The State's budget is prepared by the Governor on an annual basis and is required to be submitted along with proposed appropriation bills to the General Assembly by the first of February prior to the new fiscal year. When an appropriation bill is passed by both houses of the General Assembly, the bill is enrolled and sent to the Governor. The Governor may sign it into law or veto it in whole or in part on a line item basis. Funds may be disbursed only after appropriations have been allotted by the Department of Management, subject to the review of the Governor, with the exception of standing unlimiteds and certain receipts that the Departments are authorized to expend. Appropriations are allotted for expenditure on a quarterly basis.

## STATE OF IOWA

### Required Supplementary Information

Departments may request revisions to quarterly allotments, appropriations transfers, or supplemental appropriations. The Department of Management approves revised allotments within an appropriation, subject to the Governor's review. The Governor and the Department of Management approve all appropriation transfers. The General Assembly and the Governor act on supplemental appropriation bills in a manner similar to original appropriations. Appropriations lapse at fiscal year-end and all unencumbered or unobligated balances revert to the State treasury, unless otherwise provided.

The State utilizes encumbrance accounting for budgetary control purposes. Obligations incurred for goods or services that have not been received or rendered, are recorded to reserve that portion or the applicable fund balance. Section 8.33, unnumbered paragraph 2, of the Code of Iowa, states, "No payment of an obligation for goods or services shall be charged to an appropriation subsequent to the last day of the fiscal year for which the appropriation is made unless the goods or services are received on or before the last day of the fiscal year, except that repair projects, purchase of specialized equipment and furnishings, and other contracts for services and capital expenditures for the purchase of land or the erection of buildings or new construction or remodeling, which were committed and in progress prior to the end of the fiscal year are excluded from this provision." That is, except for the above stated exceptions, the State must have received the goods or services on or before June 30, creating an actual liability, or the encumbrance is cancelled against that fiscal year. If the encumbrances are still valid after June 30, they become expenditures / expenses of the next fiscal year.

Budgetary control is essentially maintained at the department fund level except for certain grant and aid programs where control is maintained at a program level.

Revenues and expenditures are monitored on a continuing basis. State law authorizes the Governor to impose across-the-board pro rata reductions in allotments to ensure revenues and other available funds are sufficient to pay expenses of a given fiscal year.

Separate reports for the General and budgeted Special Revenue funds presenting detail of the legal level of control and actual expenditures are available from the Department of Management.

#### **General Fund Expenditure Limitation**

The Code of Iowa, section 8.54, establishes a state General Fund expenditure limitation of ninety-nine percent of the adjusted revenue estimate. The adjusted revenue estimate is the appropriate revenue estimate for the General Fund for the following fiscal year as determined by the Revenue Estimating Conference, adjusted by subtracting estimated tax refunds payable from that estimated revenue and as determined by the Conference, adding any new revenues which may be considered to be eligible for deposit in the General Fund. New revenues means moneys which are received by the state due to increased tax rates and fees or newly created taxes and fees over and above those moneys which are received due to state taxes and fees which are in effect as of January 1 following the December state Revenue Estimating Conference. "New revenues" also includes moneys received by the General Fund of the state due to new transfers over and above those moneys received by the General Fund of the state due to transfers which are in effect as of January 1 following the December state Revenue Estimating Conference. The Department of Management shall obtain concurrence from the Revenue Estimating Conference on the eligibility of transfers to the General Fund of the state which are to be considered as new revenue in determining the state General Fund expenditure limitation.

This limitation shall be used by the Governor in the preparation of the budget and by the General Assembly in the budget process. If a source for new revenues is proposed, the budget revenue projection used for that new revenue source for the period beginning on the effective date of the new revenue source and ending in the fiscal year in which the source is included in the revenue base shall be an amount determined by subtracting estimated tax refunds payable from the projected revenue from that new revenue source, multiplied by ninety-five percent. If a new revenue source is established and implemented, the original state General Fund expenditure limitation amount shall be readjusted to include ninety-five percent of the estimated revenue from the new revenue source.

## STATE OF IOWA

### Required Supplementary Information

For fiscal years in which the Iowa Economic Emergency Fund transfers money to the General Fund, the original state General Fund expenditure limitation amount provided for shall be readjusted to include the moneys which are so transferred.

The scope of the expenditure limitation shall not encompass federal funds, donations, constitutionally dedicated moneys, and moneys in expenditures from state retirement system moneys. The Governor shall submit and the General Assembly shall pass a budget that does not exceed the state General Fund expenditure limitation. The Governor in submitting the budget and the General Assembly in passing a budget, shall not have recurring expenditures in excess of recurring revenues. The Governor shall not submit and the General Assembly shall not pass a budget which in order to balance assumes reversion of a specific amount of the total of the appropriations included in the budget.

#### Reserve Funds

The ***Iowa Economic Emergency Fund*** was created in Iowa Code section 8.55. The fund is separate from the General Fund of the state and the balance in the fund is not to be considered part of the balance of the General Fund of the state. The moneys in the fund do not revert to the General Fund, unless and to the extent the fund exceeds the maximum balance. The maximum balance of the fund is the amount equal to five percent of the adjusted revenue estimate for the fiscal year. If the amount of moneys in the Iowa Economic Emergency Fund is equal to the maximum balance, moneys in excess of this amount shall be transferred to the General Fund. The moneys in this fund may be appropriated by the General Assembly only in the fiscal year for which the appropriation is made. The moneys shall only be appropriated by the General Assembly for emergency expenditures. However, except as provided in section 8.58, the balance in the Iowa Economic Emergency Fund may be used in determining the cash position of the General Fund of the state for the payment of state obligations. Interest or earnings on moneys deposited in the Iowa Economic Emergency Fund are credited to the Rebuild Iowa Infrastructure Fund.

The ***Cash Reserve Fund*** was created in Iowa Code section 8.56. The fund is separate from the General Fund of the state and is not considered to be part of the General Fund of the state except in determining the cash position of the state. The moneys in the Cash Reserve Fund can not be transferred, used, obligated, appropriated, or otherwise encumbered except as provided under Iowa Code section 8.56. Interest or earnings on moneys deposited in the Cash Reserve Fund are credited to the Rebuild Iowa Infrastructure Fund. Moneys in this fund may be used for cash flow purposes provided that any moneys so allocated are returned to the Cash Reserve Fund by the end of each fiscal year. The maximum balance of the fund is equal to the cash reserve goal percentage, multiplied by the adjusted revenue estimate for the General Fund of the state for the current fiscal year. The moneys in this fund may only be appropriated by the General Assembly for nonrecurring emergency expenditures and shall not be appropriated for payment of any collective bargaining agreement or arbitrator's decision negotiated or awarded. The balance in the Cash Reserve Fund may be used in determining the cash position of the General Fund of the state for payment of state obligations. An appropriation shall not be made from the Cash Reserve Fund if the appropriation would cause the fund's balance to be less than three percent of the adjusted revenue estimate for the year for which the appropriation is made unless the bill or joint resolution is approved by vote of at least three-fifths of the members of both chambers of the General Assembly and is signed by the Governor. Also, the appropriation must be contained in a bill or joint resolution in which the appropriation is the only subject matter of the bill or joint resolution, and the bill or joint resolution states the reasons the appropriation is necessary.

# STATE OF IOWA

For the Year Ended June 30, 2003  
(Expressed in Thousands)

## Iowa Judicial Retirement System

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS	ACTUARIAL ACCRUED LIABILITY	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
July 1, 2001	\$ 72,375	87,800	15,425	82.43%	19,896	77.53%
July 1, 2002	67,707	88,051	20,344	76.90%	19,878	102.34%
July 1, 2003	70,018	93,561	23,543	74.84%	20,712	113.67%

The increase in unfunded AAL for the July 1, 2003 valuation was primarily due to a lower than expected rate of return on investments. Also, the State's contribution to the system decreased from 15.9% for the year ended June 30, 2002 to 9.9% for the year ended June 30, 2003.

## Peace Officers' Retirement, Accident and Disability System

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS**	ACTUARIAL ACCRUED LIABILITY*	UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)	FUNDED RATIO	COVERED PAYROLL	UAAL AS A PERCENTAGE OF COVERED PAYROLL
July 1, 2001	\$ 249,227	263,002	13,775	94.76%	30,925	44.54%
July 1, 2002	250,914	294,514	43,600	85.19%	32,154	135.60%
July 2, 2003	246,443	306,098	59,655	80.51%	33,019	180.67%

\* This amount is based on the Projected Unit Credit Method. The Aggregate Cost Method is used to determine the required contribution. This is provided for informational purposes only.

\*\* As permitted by the Code of Iowa, effective July 1, 2001 and beginning with the July 1, 2001 valuation, a smoothing method was adopted by the board of trustees to determine the actuarial (market related) value of assets. The smoothing method is designed to reduce changes in the normal contribution rate which could result from fluctuations in the market value of the assets of the system. Prior to this, market value was used.

The increase in unfunded AAL for the July 1, 2003 valuation was primarily due to the lower than expected rate of return on investments.

Pension Trust funds are discussed in detail in the Notes to the Financial Statements (NOTE 18 – PENSION PLANS.)